

Fiscal Facts 2002

IOWA
Legislative Fiscal Bureau
June 2002

To: Members of the Iowa General Assembly

From: Dennis Prouty, Director
Legislative Fiscal Bureau

Re: Fiscal Facts

Date: June 2002

Fiscal Facts contains data relating to overall revenues and expenditures of State government, as well as detail regarding the most pertinent and discussed topic areas. Additional detailed data and information are available from the Legislative Fiscal Bureau.

The FY 2002 data are estimates since the document is being issued prior to the close of FY 2002. The data provided for FY 2003 represents action taken by the 2002 General Assembly, the Second Special Session, and does not reflect action by the Governor.

Salary adjustment funds totaling \$41.1 million were appropriated to the Department of Management (DOM). In addition, Executive Branch General Fund appropriations were reduced by \$30.9 million to reflect savings due to employee furloughs and salary reductions. The DOM will allocate the salary adjustments and furlough savings to the individual departments prior to the start of the fiscal year. The estimated appropriations for individual line items do not include the allocation from the salary adjustment funds and furlough reductions.

If you would like further information regarding any of the data provided within Fiscal Facts or have any comments and suggestions regarding this document, please do not hesitate to contact me.

FISCAL FACTS 2002
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**2002 LEGISLATIVE
SESSION OVERVIEW**

**STATE OF IOWA
GENERAL FUND BALANCE
(\$ in millions)**

	<u>FY 2002 Estimated</u>	<u>FY 2003 Legislative Action</u>
<i>Estimated Funds:</i>		
Estimated Receipts		
Rev. Est. Conference	\$ 5,055.5	\$ 5,018.3
Transfers	203.8	40.6
Total Receipts	<u>5,259.3</u>	<u>5,058.9</u>
Tax Refunds	- 643.0	- 606.0
Accruals	- 15.2	3.6
<i>Total Funds</i>	<u><u>4,601.1</u></u>	<u><u>4,456.5</u></u>
<i>Est. Appropriations:</i>		
General Fund	\$ 4,610.2	\$ 4,468.7
Reversions	- 10.2	- 12.5
<i>Net Appropriations</i>	<u><u>4,600.0</u></u>	<u><u>4,456.2</u></u>
<i>Ending Balance prior to Cash Reserve</i>	<u><u>\$ 1.1</u></u>	<u><u>\$ 0.3</u></u>

THE YEAR IN REVIEW**FY 2002**

Iowa experienced a severe downturn in the economy. Tax receipts came in much lower than originally projected and tax refunds paid out were much higher than projected. Prior to the Second Extraordinary Session on May 28, 2002, the General Assembly faced a \$202.7 million budget shortfall for FY 2002 and a \$160.5 million shortfall for FY 2003.

Thirty-nine states experienced similar or much greater budget shortfalls in FY 2002 and were forced to reduce their enacted budgets by tapping Rainy Day Funds, transferring from other funds, implementing furloughs, layoffs, or across-the-board reductions. In Iowa:

- The Governor, through Executive Order 24, implemented a 4.3% across-the-board reduction (\$203.1 million) for the Executive Branch in November 2001.
- The General Assembly passed HF 759 (FY 2002 Budget Adjustment Act) during a November Extraordinary Session which reduced the Legislative Branch and the Judicial Branch appropriations by 4.6%, but restored some of the other across-the-board reductions. The total impact of the across-the-board reductions and HF 759 was a net reduction of \$183.2 million for FY 2002.
- House File 759 provided for both an early retirement program and a sick leave and vacation incentive early out program; 582 employees took advantage of the early retirement program.
- In March, the General Assembly passed SF 2304 (FY 2002 Budget Adjustment Act II) which transferred a total of \$49.3 million to the General Fund from non-General Fund sources and reduced spending from the General Fund by \$72.4 million for a net impact of \$121.7 million in additional resources for FY 2002. Some departments implemented layoffs and furloughs to reduce budget expense.
- In late April and early May, revenues continued to decline and tax refunds increased, creating a \$202.7 million shortfall for FY 2002. The Revenue Estimating Conference met on May 7 and adjusted the revenue estimate downward.

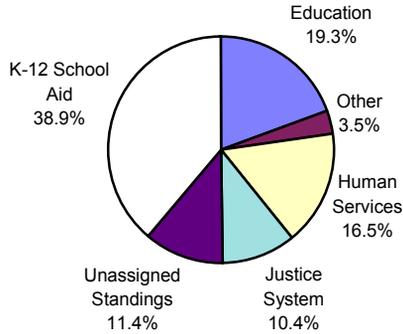
THE YEAR IN REVIEW (Cont'd.)**FY 2002 (Cont'd.)**

- In May, during the Second Extraordinary Session, the General Assembly passed HF 2625 (FY 2002 Adjustments and Transfers Act) which transfers \$203.8 million to the General Fund from five non-General Fund sources, including \$105.0 million from the Economic Emergency Fund, and \$90.0 million from the Cash Reserve Fund.

FY 2003

During the Regular Session, the General Assembly passed SF 2326, the FY 2003 Omnibus Appropriations Bill, and other appropriations bills appropriating a total of \$4.57 billion for FY 2003. The Governor item-vetoed the majority of SF 2326, and called the General Assembly back into Special Session on April 22 to adjust the FY 2002 and FY 2003 budgets. No action was taken on the budget during that Special Session. After the Revenue Estimating Conference on May 7, 2002, the Governor again called a Special Session for May 28, and the General Assembly passed three appropriations bills making revenue transfers and other appropriation adjustments for FY 2002 and FY 2003, and ultimately approving total appropriations of \$4.47 billion for FY 2003. The current estimated ending balance for FY 2003 is \$0.3 million prior to any item vetoes.

**DISTRIBUTION OF ESTIMATED FY 2003
STATE GENERAL FUND APPROPRIATIONS
(\$ in millions)**



Subcommittee	Est. FY 2003 Appropriations	Percent of Total
Admin. & Regulation	\$ 47.8	1.1%
Ag. & Natural Resources	32.7	0.7%
Economic Development	25.4	0.6%
Education	865.4	19.3%
Health & Human Rights	47.7	1.1%
Human Services	735.9	16.5%
Justice System	465.5	10.4%
Trans. & Infrastructure	0.0	0.0%
Unassigned Standings	509.2	11.4%
K-12 School Aid	1,739.1	38.9%
Total	\$ 4,468.7	100.0%

Notes:

- 1) Totals may not add due to rounding.
- 2) "Other" includes Administration and Regulation, Agriculture and Natural Resources, Economic Development, Health and Human Rights, Transportation and Infrastructure, and Unassigned Standings.

MAJOR IOWA TAX CHANGES

Insurance Tax Rate Reduction

Reduces Iowa's insurance premium tax rate from 2.00% to 1.00% in 0.25% increments over a period of four years. The reduction for health & life insurance starts with calendar year 2003 premiums and 2004 for property and casualty insurance. When fully implemented, the rate reduction is projected to reduce General Fund receipts by \$65.0 million (FY 2007). Due to rate reciprocity laws, if other states reduce their tax rates in the next few years, the fiscal impact of this legislation on the General Fund will increase.

Venture Capital and Business Incentives

- **Venture Capital Fund-of-Funds**
Creates a contingent tax credit system to be used to guarantee the principal and rate of return for investors in a venture capital "fund-of-funds." The tax credits cannot be utilized for at least five years. The fiscal impact of the contingent tax credits could not be determined since the likelihood of the tax credits being used cannot be determined.
- **Venture Capital Tax Credit**
Allows a tax credit of up to 6.0% of a qualified investment in a venture capital fund. The taxpayer is not allowed to use the credit until the third year after the investment is made. The aggregate amount of all credits allowed in a fiscal year is limited to \$5.0 million.
- **Seed Capital Tax Credit**
Provides a 20.0% tax credit to investors in qualified community-based seed capital funds and qualified start-up Iowa companies. The tax credits apply to investments made starting January 1, 2002, but cannot be utilized for three years. The total tax credits allowed are limited to \$3.0 million the first and second years and \$4.0 million the third year.

MAJOR IOWA TAX CHANGES (Cont'd.)

- **Subchapter S Corporations**
Increases the percentage of federal tax paid that a Subchapter S corporation may deduct from 50.0% to 100.0%. The change is projected to reduce General Fund revenues by approximately \$850,000 per year beginning in FY 2003.
- **Start-Up Business Tax Deferment**
Allows qualified start-up businesses to defer Iowa corporate income taxes during the first three years of operation. The taxes would then be paid to the State over the next five years. Although a fiscal impact estimate could not be determined, the change will reduce General Fund revenues beginning in FY 2003.

**FY 2003 GOVERNOR'S PROPOSED
ADMINISTRATION REORGANIZATION**

Department of Administrative Services – The Governor recommended \$16.1 million and 558.5 FTE positions for FY 2003 to create the new Department of Administrative Services. This is a decrease of \$4.4 million and an increase of 54.7 FTE positions compared to estimated net FY 2002.

The new administrative agency assimilates the Iowa Telecommunications Commission, the Department of Information Technology, the Department of General Services, the Iowa Department of Personnel, and the accounting function from the Department of Revenue and Finance into a new administrative agency.

The proposed Department of Administrative Services would require the transfer of other funds, including revolving funds, from the existing departments to the new Agency. The changes include:

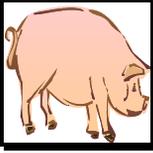
<u>Department Name</u>	<u>Estimated Net FY 2002</u>	<u>Gov. Rec. FY 2003</u>	<u>Gov. Rec. vs. FY 2002</u>
la. Telecomm. & Technology Com.	\$ 2,116,871	\$ 1,012,947	\$ - 1,103,924
FTEs	105.00	105.01	0.01
Information Technology Department	3,243,826	3,243,826	0
FTEs	125.00	167.45	42.45
Department of General Services	9,193,849	9,416,896	223,047
FTEs	158.60	168.80	10.20
Department of Personnel	4,071,100	4,049,601	- 21,499
FTEs	86.00	86.00	0.00
Accounting - Dept. of Revenue Finance	1,867,706	1,867,706	0
FTEs	29.20	29.20	0.00
Total	<u>\$ 20,493,352</u>	<u>\$ 19,590,976</u>	<u>\$ - 902,376</u>
Addition for Enterprise Planning Teams		116,000	116,000
FTEs		2.00	2.00
Consolidation Savings		- 3,609,534	\$ - 3,609,534
Total Governor's Recommendation	<u>\$ 20,493,352</u>	<u>\$ 16,097,442</u>	<u>\$ - 4,395,910</u>
Total FTEs	503.80	558.46	54.66

The General Assembly took no action regarding this proposal.

**DEPARTMENT OF NATURAL RESOURCES
REORGANIZATION**

Senate File 2325 (Oversight Government Reform Act) included the reorganization of the Department of Natural Resources. Changes include:

- A reduction in the number of Divisions within the Department from seven to three and the number of Bureaus from 21 to 16 to allow better coordination of similar activities and eliminate duplication of functions.
- A relocation of 130 positions from the Des Moines office to field locations, with the majority of these positions in environmental areas to provide better customer service.
- A relocation of environmental legal enforcement activities from the Environmental Protection Division to the Director's Office. The Director's Office will become involved in legal actions earlier and will provide greater oversight of these activities. As a result, it is anticipated that the Department will be able to provide faster response time regarding legal actions.
- A reduction in the number of supervisors at State Parks. The savings from the reduction will be used to increase security.

ANIMAL AGRICULTURE

Senate File 2293 (Animal Agriculture Act) changes the regulations for animal feeding operations and creates the Animal Agriculture Compliance Fund that will be administered by the Department of Natural Resources (DNR). The Animal Agriculture Compliance Fund can receive appropriations from the State, federal funds, private donations, fines collected from penalties, and fees. Major changes include:

- Requires operators to pay an annual compliance fee of \$0.15 per animal unit beginning March 1, 2003. The fees will be used to fund 12.0 FTE positions for regulation enforcement. Estimated fees for FY 2003 are \$375,000 and \$900,000 for subsequent years.
- Requires animal feeding operations with more than 500 animal units to submit an annual manure management plan. The operator will pay a one-time filing fee of \$250. The plans will be submitted electronically and include application rates for phosphorus. Estimated fees are \$63,000 per fiscal year.
- Requires animal feeding operations with 1,000 or more animal units to obtain a construction permit and pay a \$250 construction permit fee. Estimated fees are \$13,000 per fiscal year.
- Charges fees for the certification of manure applicators. The fee for a Confinement Site Applicator is \$100 for a three-year period and the fee for a Commercial Applicator is \$200 per year. Estimated fees are \$255,000 per fiscal year.
- Specifies that fines collected for civil penalties are deposited into the General Account of the Animal Agriculture Compliance Fund. Estimated fines are \$165,000 per fiscal year.

ANIMAL AGRICULTURE (Cont'd.)

- Requires the DNR to conduct a comprehensive field study to monitor airborne pollutants emitted from animal feeding operations. The Department was appropriated \$500,000 from the Environment First Fund for FY 2003 for the purchase of equipment.
- Requires the DNR to develop water quality standards for phosphorus and complete a study that analyzes the effects of phosphorus originating from municipal and industrial sources and from farm, lawn care, and garden uses on the waterbodies in the State. The estimated cost for the study is \$100,000 per year for three years.
- Requires persons polluting State waterbodies that destroy fish or wild animals to be responsible for the replacement of the wildlife. Funds will be deposited into the Fish and Game Protection Fund.
- Allows the Department of Natural Resources to borrow money from the Manure Storage Indemnity Fund for FY 2003 to fill the 12.0 FTE positions for regulation enforcement. As of May 28, 2002, the Fund had a balance of \$808,000.

EARLY OUT PROGRAMS

The General Assembly passed SF 551, the Early Out Programs Act, on November 8, 2001. Senate File 551 provides for the establishment of two early termination programs for eligible State employees: a Years of Service Incentive Program and a Sick Leave and Vacation Incentive Program. The Act also repeals the Workforce Attrition Program and Fund, and transfers any moneys in the Fund to the General Fund of the State.

The Act establishes a Years of Service Incentive Program that permits a department, agency, board, or commission to offer a Termination Incentive to eligible employees who agree to separate from State employment. To be eligible, an employee shall have ten or more years of covered service under the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) or the Iowa Public Employees' Retirement System (IPERS) as of the date the employee leaves State employment. As part of the approval process, the employer shall submit a business plan to the Departments of Management and Personnel, indicating the savings to the State if the employee or employees participate. Once approval is obtained, the employer may offer an employee a Termination Incentive equal to the lesser of the employee's annual salary or \$250 for each quarter year of covered service under PORS or IPERS, if the employee voluntarily agrees to terminate employment and agrees not to return to permanent full-time or permanent part-time employment with the State. This provision in the Act takes effect July 1, 2002, and is repealed June 30, 2003.

The Act also establishes a Sick Leave and Vacation Incentive Program for eligible employees of the Executive Branch of the State who are not covered by a collective bargaining agreement. The Program shall be administered by the Department of Personnel. The Act also authorizes the Legislative Council to offer a similar program to legislative employees. The Act permits eligible Executive Branch employees for which the sum of the number of years of credited service under IPERS or PORS and the employee's age as of December 31, 2002, equals or exceeds 75, to separate from service with the State and receive a Sick Leave and Vacation Incentive Benefit payable in five fiscal years beginning with the fiscal year that ends June 30, 2002.

EARLY OUT PROGRAMS (Cont'd.)

The Incentive Benefit is equal to the employee's unused vacation plus the lesser of the employee's regular annual salary or the value of the employee's sick leave.

Employees who participate in the Program, as well as the corresponding program established pursuant to a collective bargaining agreement, are eligible to continue to participate in group insurance coverage from the State in the same manner as employees who retire from State employment.

Early retirement plans or early out programs are incentives for State employees to retire prior to the normal retirement age of 65. Plans are enacted to reduce State budget salary costs, and in times of budget crises, they are used to reduce the number of layoffs, assuming that if an older worker retires, a younger worker will not be laid off. Savings from early retirement plans are dependent on eligibility requirements, participations rates, and rehire rates.

The Plan provides for payment of 100.0% of accumulated vacation and partial payment of sick leave. The leaves are to be paid over a five-year period.

A total of 592 employees participated in the Sick Leave and Vacation Incentive Program. The savings is approximately \$11.2 million in FY 2002, \$29.2 million in each FY 2003 through FY 2005, \$26.9 million in FY 2006, and \$125.7 million over five years for all funding sources. This does not take into account the costs for positions that have been refilled or the two retirements at the Fair Authority.

The employer utilization of the Years of Service Incentive Program is undetermined; therefore, the fiscal impact of that Program cannot be determined. The savings will be retained by the agency that has a retirement.

The General Assembly passed HF 2625 (Sick Leave and Vacation Incentive Program Extension) on May 28, 2002, which provides similar sick leave payment incentives for qualified employees who terminate State employment by August 15, 2002.

RETIREMENT SYSTEM CHANGES

Fireman’s Death Benefit Changes:

House File 2152 (Fireman’s Death Benefit Act) eliminates the repeal of a \$100,000 death benefit for emergency services providers not covered by the Public Safety Peace Officers’ Retirement, Accident, and Disability System, the Iowa Public Employees’ Retirement System (IPERS), or the Municipal Fire and Police Retirement System of Iowa, who die in the line of duty. The number of deaths that will occur is unknown. Each qualified death will result in a \$100,000 impact to the General Fund. In most cases, workers’ compensation death benefits will also be payable.

Public Retirement System Changes:

House File 2532 (Public Retirement System Changes) makes numerous changes to public retirement systems, including the Public Safety Peace Officers’ Retirement, Accident, and Disability System (PORS), the Iowa Public Employees’ Retirement System (IPERS), the Statewide Fire and Police Retirement System (411s), and the Judicial Retirement System. The changes to each public retirement system with estimated fiscal impact are as follows:

Public Safety Peace Officers’ Retirement, Accident, and Disability System (PORS):

- Section 97A.6(14), Code of Iowa, is amended concerning the escalator program for retirees. The Bill provides that the calculation relating to the increase in a retiree’s pension based upon a percentage of the increase in salary for an active member of the system is done on both July 1 and January 1 of each year. Under current law, this calculation is done only on July 1.
- Section 97A.14A, Code of Iowa, is added and permits the System to recover benefits paid by way of a subrogation action.
- The fiscal impact to the Fund cannot be determined due to the lack of information from the System.

RETIREMENT SYSTEM CHANGES (Cont'd.)**Iowa Public Employees' Retirement System (IPERS):**

- Section 97B.49A(1)(e)(1), Code of Iowa, is amended by adding a county conservation peace officer as designated by a county conservation board as a member of a protection occupation for purposes of calculating the members' retirement under IPERS.
- Section 97B.49F(2), Code of Iowa, is amended to provide that a beneficiary who receives a monthly allowance after the death of an active member will qualify for a Favorable Experience Dividend (FED) in the same manner as IPERS retirees and beneficiaries.
- Section 97B.50A, Code of Iowa, is amended to provide that a special services member has the option of selecting a pension equal to 60.0% of the member's three-year covered wage or the pension the special service member would otherwise receive if the member were 55 years-of-age. Under current law, the member receives the greatest of the 60.0% calculation or the pension the member would otherwise receive based upon the member's actual age.
- Section 97B.52(2), Code of Iowa, is made retroactive to January 1, 1992, to provide a \$100,000 line of duty death benefit for a member who dies while in special service. Making the \$100,000 death benefit retroactive to January 1, 1992, would cost the Fund \$600,000.
- IPERS is to conduct a study and report by October 1, 2003, concerning its findings and recommendations on the possible implementation of a cost-neutral Deferred Retirement Option Program (DROP).
- IPERS is to conduct a study and report by October 1, 2003, concerning its findings and recommendations on the possible implementation of a new option for vested employees who terminate employment prior to retirement to have their refund amount rolled into an individual account under IPERS.
- The total cost of the two studies is approximately \$135,000.

RETIREMENT SYSTEM CHANGES (Cont'd.)

Statewide Fire and Police Retirement System (411s):

- Sections 411.1 and 411.6(3) and (5), Code of Iowa, are amended to provide that a member must be in “good standing” in order to receive an ordinary disability benefit or an accidental disability benefit.
- Section 411.6(7), Code of Iowa, is amended to provide that the contribution applicable to a disabled member who returns to work is the rate applicable to all members of the System.
- To the extent that a fiscal impact can be determined, the impact will be minimal.

Judicial Retirement System:

- Sections 602.9202 and 602.9203, Code of Iowa, are amended to provide that full-time associate juvenile judges and full-time associate probate judges can be senior judges under the Judicial Retirement System. Both full-time associate juvenile judges and full-time associate probate judges are currently included within the Judicial Retirement System.
- Permitting the current associate probate judge and the seven associate juvenile judges who participate in the Judicial Retirement System to participate in the Senior Judge Program would have no immediate impact on the Judicial Retirement System, and only minimal impact in the future.
- The retention of four senior judges, instead of one full-time judge, would save the Judicial Branch approximately \$27,000 each year.

JUDICIAL BRANCH UPDATE



The following legislation was passed by the General Assembly for FY 2003:

Senate File 2320 (Court Filing Fee Increase) increased Clerk of Court civil filing fees and generated approximately \$3.1 million in revenue for the General

Fund. Following are the fees that were increased and the amount that they were increased by:

Fees	Increase
Civil Filing	\$80 to \$100
Final Decree of Dissolution	\$30 to \$50
Modification with Stipulation	\$25 to \$50
Small Claims Appeal	\$50 to \$75
Small Claims Case	\$30 to \$50
Lien	\$10 to \$20
Change of Title	\$10 to \$20
Motion to Show Cause	\$25 to \$50
Jury Trial	\$10 to \$100

Senate File 415 (District Associate Judge Jurisdiction) expanded the jurisdiction of district associate judges to include the hearing of felony arraignments in addition to indictable misdemeanors and Class D felonies.

House File 518 (Small Claims Court Jurisdiction) made jurisdictional changes to small claims court cases. The Act provides that small claims court cases commenced on or after July 1, 2002, shall not involve damages or value in excess of \$5,000. The Act does allow the jurisdictional amount to revert to \$4,000 if the court finds the \$5,000 limit unconstitutional. By increasing the jurisdictional amount for small claims cases, the jurisdiction of magistrates or district associate judges to hear cases is expanded to hear and assess judgment on certain actions, including county and city violations.

House File 2627 (FY 2003 Omnibus II Funding Bill) appropriates a total of \$111,194,267 from the General Fund to the Judicial Branch. This figure includes \$111,356,002 for operations, \$2,039,664 for judicial retirement (9.9% of covered payroll), and a reduction of \$2,201,399 for furloughs.

JUDICIAL BRANCH UPDATE (Cont'd.)

House File 2623 (FY 2003 Salary, Statutory Changes, and Corrective Changes Act) removed the requirements of the Court Technology and Modernization Fund that specified 80.0% of the Fund be used to enhance and improve public access to the Court System and 20.0% of the Fund be used in equal amounts to facilitate alternative dispute resolution and methods to resolve domestic abuse cases. The Bill also struck the requirement that none of the Court Technology money could be used for the Iowa Court Information System. Every year, \$1.0 million in Court revenue is deposited into this non-reversionary fund (Section 602.8108, Code of Iowa).

The other change in HF 2623 (FY 2003 Salary, Statutory Changes, and Corrective Changes Act) was an increased specification that costs associated with summoning jurors would be paid from the Jury Witness Fee Revolving Fund directly rather than the Court operating budget. Money in this Fund is expended on an as-needed basis to pay for jury and witness expenditures. Section 602.1302(3), Code of Iowa, established a revolving fund for the payment of jury and witness fees and mileage by the Judicial Branch. Section 909.10(2) Code of Iowa, directs the clerk to deposit into the revolving fund fines, court costs, and criminal surcharges which are more than two years old when paid.

VISION IOWA PROGRAM

The Vision Iowa Program was created by the 2000 General Assembly to assist communities in developing major attractions. The Program funds projects costing at least \$20.0 million and involve primarily vertical infrastructure. The funded projects are to have regional or statewide economic impact and the potential to attract out-of-state visitors. The maximum Vision Iowa funding for any one project is \$75.0 million. A minimum of 50.0% of the total project must be funded from local and other sources, excluding federal or other State moneys. A preference is given to projects with greater local funding.

The program receives \$15.0 million annually for 20 years from gambling receipts. Using this funding stream, the Treasurer of State issued bonds, which were sold on October 9 and 10, 2001. The proceeds from the bond sale, projected interest earned, and funds carried forward from FY 2001 provided a total of \$215.0 million for Vision Iowa projects. To date, nine awards have been issued. They are:

- Mid American Recreation and Convention Complex, Council Bluffs – \$24,000,000 grant plus \$7,000,000 loan.
- America's River at the Port of Dubuque – \$40,000,000 grant.
- River's Edge, Sioux City – \$21,000,000 grant.
- Capitol City Vision Project, Polk County – \$55,000,000 grant plus a \$15,000,000 forgivable loan.
- River Renaissance on the Mississippi, Davenport – \$20,000,000 grant.
- McGregor/ Marquette Area Legacy – \$5,000,000 grant.
- Bridge View Event Center, Ottumwa – \$7,500,000 grant.
- Things to Do With A River View, Clinton – \$5,000,000 grant.
- River Renaissance, Waterloo – \$16,000,000 grant.

Approximately, \$6.5 million remain available for awards.

TOBACCO SETTLEMENT

On November 20, 1998, forty-six states approved a settlement agreement with the four major tobacco industry manufacturers comprising 99.4% of the United States cigarette market. The manufacturers agreed to a settlement valued at \$206.38 billion to be paid over 25 years to settle tobacco-related lawsuits filed by the states.

Iowa will receive approximately 0.87% (\$1.7 billion) of the total funds allocated for distribution to the states. Annual unadjusted payments to Iowa will initially increase on a yearly basis, beginning with \$55.8 million in April 2000 and increasing to \$73.0 million in April 2003. Iowa will then receive \$60.9 million annually for the years 2004 through 2007, \$62.1 million annually for the years 2008 through 2017, and \$69.6 million annually for the years 2018 through 2025.

The 2001 General Assembly passed SF 532 that authorized securitization of the tobacco settlement payment. The Act authorized the sale of \$600.0 million tax-exempt and \$50.0 million taxable securities for 30 years. The net tax-exempt proceeds (\$540.0 million) were placed in the Tobacco Settlement Trust Fund Restricted Capital Funds Account. These funds are used for litigation payments, qualified capital projects, and certain debt service. The net taxable proceeds (\$39.6 million) were placed in the Endowment for Iowa's Health Account, to create an endowment for future appropriations for health-related programs. The 2001 General Assembly also created the Healthy Iowans Tobacco Trust, which provides a mechanism to appropriate funds from the Endowment for health-related programs.

The 2002 General Assembly passed several Acts which impacted the Endowment, Restricted Capital Fund, and the Healthy Iowans Tobacco Trust:

- SF 2304 (FY 2002 Budget Adjustment Act) made an across-the-board reduction of 1.0% for FY 2002. This reduced the General Fund appropriation to the Endowment by \$72,000. The Act transferred \$15.0 million in wagering tax receipts from the Endowment to the General Fund. The Act also transferred \$7.0 million from the Endowment to the General Fund.
- HF 2245 (FY 2002 Medicaid Assistance Act) appropriated \$2.5 million from the Endowment to the Department of Human Services (DHS) for medical

TOBACCO SETTLEMENT (Cont'd.)

assistance. The Act also made an appropriation of \$7.0 million for medical assistance, if federal funds are not deposited into the Hospital Trust Fund created in Section 2471.4, Code of Iowa. House File 2245 provides that \$2.5 million of the FY 2002 ending balance of the Hospital Trust Fund shall be transferred to the Endowment. The Act also provides that if any federal funds are deposited into the Hospital Trust Fund during FY 2003, the first \$7.0 million is transferred to the Endowment.

- HF 2075 (FY 2002 Endowment Reimbursement Act) commits future General Fund receipts to reimbursing the Endowment up to \$91.5 million for several appropriations by the 2002 General Assembly.
- HF 2615 (Healthy Iowans Tobacco Trust Bill) transfers \$9.0 million in FY 2003 wagering tax receipts from the Endowment to the Healthy Iowans Tobacco Trust. The Bill also eliminates the FY 2003 General Fund appropriation of \$27.1 million to the Endowment.
- SF 2315 (FY 2003 School Aid Foundation Act) appropriates \$20.0 million from the Endowment's FY 2003 wagering tax allocation for School Foundation Aid. The General Fund appropriation for School Foundation Aid was reduced by \$20.0 million.
- HF 2623 (FY 2003 Salary Adjustment Bill) amends SF 2315 to eliminate the requirement that the first \$20.0 million in wagering tax receipts be transferred to the General Fund. This action was required due to cash flow concerns.
- HF 2614 (FY 2003 Infrastructure Appropriations Bill) appropriates \$16.8 million from the Endowment's wagering tax allocation for Tuition Replacement.
- SF 2317 (Tobacco Settlement Enforcement) provides a FY 2002 supplemental appropriation of \$945,000 to the Treasurer of State for payment of litigation fees incurred pursuant to the Master Settlement Agreement. The appropriation is made from the tax-exempt bond proceeds of the Restricted Capital Fund.
- HF 2627 (FY 2003 Omnibus II Funding Bill) transfers \$9.0 million from the Endowment to the General Fund.
- HF 2625 (FY 2002 Adjustments and Transfers Bill) increases the amount of money to be repaid to the Endowment from \$91.5 million to \$100.5 million.

TOBACCO SETTLEMENT (Cont'd.)

Healthy Iowans Tobacco Trust Fund

		<u>FY 2002</u>	<u>FY 2003</u>
Resources			
Balance		\$ 11,305,232	\$ 375,163
Transfer from the Endowment		55,000,000	55,825,000
Endowment (Wagering Tax Allocation)		0	9,000,000
Interest Earned		400,000	0
Total		<u>\$ 66,705,232</u>	<u>\$ 65,200,163</u>
Appropriations			
Department	Intended Use		
Corrections	Day Programming, Drug Courts, & Fort Madison Special Needs Unit (FY 2003)	\$ 609,999	\$ 1,710,000
Public Health	Sub. Abuse Treatmt., tobacco use prev. control, & Healthy Iowans 2010 Prog.	25,795,394	17,465,064
Education	Iowa Empowerment Fund	1,153,250	1,153,250
Human Serv.	Medicaid Elig. for Special Needs Children	1,975,496	1,975,496
	Medicaid Provider Reimbursements	22,845,930	22,845,930
	Supplement Children's Health Insurance Program (CHIP) Funding	200,000	200,000
	Breast/Cervical Cancer Treatment	250,000	250,000
	Supplement Medicaid appropriation from General Fund	7,500,000	17,500,000
	HIPPA Implementation		2,100,000
Transfer to the General Fund		6,000,000	
Total Appropriations		<u>\$ 66,330,069</u>	<u>\$ 65,199,740</u>
Ending Balance		<u>\$ 375,163</u>	<u>\$ 423</u>

Endowment For Iowa's Health Account

		<u>FY 2002</u>	<u>FY 2003</u>
Resources			
Balance		\$ 0	\$ 26,629,271
Bond Proceeds		39,551,202	0
Transfer from General Fund		7,175,520	0
Wagering Tax Allocation		80,000,000	75,000,000
22% of MSA Payment		13,903,279	13,845,572
Tobacco Settlement Residuals		11,435,781	14,946,519
Interest Earned		1,063,489	1,048,000
Total		<u>\$153,129,271</u>	<u>\$ 131,469,362</u>
Appropriations			
Healthy Iowans Tobacco Trust		\$ 55,000,000	\$ 55,825,000
Additional Healthy Iowans Tobacco Trust Appropriation		0	9,000,000
Teacher Quality Act		40,000,000	0
School Aid Transfer		\$ 0	\$ 20,000,000
Tuition Replacement			16,843,772
Transfer to General Fund - Wagering Tax		15,000,000	0
Transfer to General Fund		7,000,000	9,000,000
Medicaid Supplemental		9,500,000	0
Total		<u>\$126,500,000</u>	<u>\$ 110,668,772</u>
Ending Balance		<u>\$ 26,629,271</u>	<u>\$ 20,800,590</u>

SENIOR LIVING TRUST FUND

House File 2613 (Senior Living Trust Fund and Hospital Trust Fund Appropriations Bill), as amended by HF 2627 (FY 2003 Omnibus II - Second Special Session), appropriates \$74.3 million and 13.0 FTE positions

from the Senior Living Trust Fund to the Department of Elder Affairs and the Department of Human Services (DHS).

For FY 2003, the Bill appropriates:

- \$6.6 million and 8.0 FTE positions to the Department of Elder Affairs for the Senior Living Program to provide home and community-based services for the elderly.
- \$37.7 million and 5.0 FTE positions to the DHS to supplement the Medical Assistance appropriation for the Elderly Home and Community-Based Waiver and the State Supplementary Assistance Program (Medicaid).
- \$30.0 million for nursing facility provider reimbursements based on a case-mix reimbursement methodology.

The Senior Living Trust Fund was created in FY 2001 as the result of federal revenues that were paid to the State due to the adjustment of State charges to the Center for Medicare and Medicaid Services, formerly the Health Care Financing Administration (HCFA) for the Medical Assistance Program (Medicaid). Deposits into the Fund are projected to end in FY 2004, and if future appropriations from the Fund continue at the FY 2003 levels, it is estimated that the Fund will be depleted in FY 2005.

SENIOR LIVING TRUST FUND (Cont'd.)

Senior Living Trust Fund
(\$ in millions)

	Estimated FY 2003
Revenues	
Begininning of SFY Fund	\$ 104.5
Intergovt. Transfer (9/1/01 estimate)	106.1
Interest	5.1
Total Revenues	<u>\$ 215.7</u>
Expenditures	
NF Conversion/LTC Service Grants	\$ 0.0
DHS Service Delivery	
Assisted Living Rent Subsidy	0.7
HCBS Elderly Waiver	0.7
NF Case Mix and Price Methodology	30.0
Medical Assist. Program (Medicaid)	36.0
DHS Administration and Contracts	0.3
DHS Total	<u>\$ 67.7</u>
DEA Service Delivery	
Senior Living Program	\$ 6.2
DEA and Contract Administration	0.4
DEA Total	<u>6.6</u>
Total Expenditures	<u>\$ 74.3</u>
Ending Trust Fund Balance	<u>\$ 141.4</u>

SFY = State Fiscal Year

NF = Nursing Facility

LTC = Long-Term Care

HCBS = Home and Community-Based Services

DEA = Department of Elder Affairs

Note: Totals may not add due to rounding.

HOSPITAL TRUST FUND

House File 2613 (Senior Living Trust Fund and Hospital Trust Fund Appropriations Act) appropriates a total of \$12.0 million from the Hospital Trust Fund to the Department of Human Services (DHS) to supplement the Medical Assistance Program for

FY 2003 because of projected increases in eligibles and utilization over FY 2002.

House File 763 (Hospital Trust Fund Act) created a Trust Fund similar to the Senior Living Trust Fund. The Fund was created during the Second Extraordinary Session of the 79th General Assembly on November 8, 2001. Following that, the DHS filed the request to the federal Centers for Medicare and Medicaid Services (CMS) to allow the State of Iowa to participate in the federal upper payment limit process for hospitals (which would generate the revenues to be deposited into the Hospital Trust Fund). The Act allowed the DHS to request and receive these enhanced federal funds.

Currently, Medicaid payments may not exceed 150.0% of a reasonable estimate of what Medicare would have paid for the same services. The State Medicaid Plan amendment, effective November 26, 2001, as approved by the CMS would allow reimbursement based on Medicare rates, which are higher than Medicaid. Iowa would be the 36th state to utilize this funding mechanism.

Increased federal funding to Iowa would be approximately \$12.0 million. The CMS has recently approved the request but there is no balance in the fund.

ENVIRONMENT FIRST FUND

The Environment First Fund was created in Senate File 2453 (Infrastructure Appropriations Act) by the 2000 General Assembly to provide funding for the protection, conservation, enhancement, or improvement of natural resources or the environment. The Act also established a \$35.0 million standing appropriation from the Rebuild Iowa Infrastructure Fund to the Environment First Fund. The General Assembly annually appropriates from the Environment First Fund for specific environmental projects. For FY 2003, the appropriations include funding of \$11.4 million for the water quality initiatives, \$2.0 million for the Resource Enhancement and Protection (REAP) Fund, and \$3.2 million for other environmental purposes.

OTHER ENVIRONMENTAL-RELATED APPROPRIATIONS

In addition to the appropriations from the Environment First Fund, the General Assembly also appropriated \$5.5 million from the Restricted Capital Fund for FY 2003 for environmental and recreational purposes. The appropriations include \$2.5 million for the Restore the Outdoors Program, \$1.0 million to fund a portion of the cost to construct a new Destination State Park, and \$2.0 million for Recreational Trails.

TRANSFERS TO THE GENERAL FUND

In FY 2002, the General Assembly transferred a total of \$7.5 million from the Environment First Fund to the General Fund to help fund the budget short fall. In FY 2003, \$18.4 million was transferred to the General Fund.

ENVIRONMENT FIRST FUND (Cont'd.)

Environment First Fund
(\$ in millions)

Resources	FY 2003
Rebuild Iowa Infrastructure Fund Approp.	\$ 35.0
Expenditures	
Department of Agriculture	
Conservation Reserve Enhancement Program (CREP)	\$ 1.5
Watershed Protection Program	2.7
Farm Demonstration Program	0.5
Soil Conservation Cost Share	3.5
Total Department of Agriculture	<u>\$ 8.2</u>
Department of Natural Resources	
Volunteer Water Quality Initiatives	\$ 0.1
Water Quality Monitoring	2.6
Water Quality Protection	0.5
Air Quality Monitoring Equipment	0.5
Lake Dredging	0.4
Marine Fuel Tax Capital Projects	2.3
REAP Formula Allocation	2.0
Total Department of Natural Resources	<u>\$ 8.4</u>
Transfer to the General Fund	<u>\$ 18.4</u>
Total Expenditures	<u><u>\$ 35.0</u></u>

REAP = Resource Enhancement and Protection Fund

Note: Totals may not add due to rounding.

**STUDENT ACHIEVEMENT AND
TEACHER QUALITY BILL**

During the 2002 Legislative Session, the General Assembly passed legislation pertaining to the continuation of the Student Achievement and Teacher Quality Program and provided \$40.0 million in funding for FY 2003. Policy issues and funding allocations were passed in HF 2549 (Student Achievement and Teacher Quality Program Bill). The allocation amounts are:

- Up to \$1.4 million to the Department of Education for National Board Certification awards.
- Up to \$4.1 million to the Department of Education for the Beginning Teacher Mentoring and Induction Program. If sufficient funds are available, each district shall receive \$1,300 per beginning teacher, and \$500 per semester shall be awarded to the mentor.
- Up to \$1.7 million to the Department of Education for the Evaluator Training Program.
- Up to \$500,000 to the Board of Educational Examiners for fees and costs related to the Praxis II examination.
- Up to \$50,000 to the Department of Education for implementing the Career Development Program and for Department administrative costs.
- Up to \$32.3 million to school districts (based 50.0% on enrollments and 50.0% on the number of FTE teachers) and area education agencies in FY 2002. The funds are to be used to enhance teacher salaries, subject to minimum salaries specified in SF 476 (FY 2002 Student Achievement and Teacher Quality Act) and to collective bargaining negotiations.

Funding for the Program is as follows:

- Appropriates a total of \$16.1 million from the General Fund to the Department of Education for the Student Achievement and Teacher Quality Program.
 - \$7.75 million is appropriated in SF 2326 (FY 2003 Omnibus Appropriation Bill).
 - \$8.35 million is appropriated in HF 2623 (FY 2003 Salary Bill).

**STUDENT ACHIEVEMENT AND
TEACHER QUALITY BILL (Cont'd.)**

- Transfers \$8.9 million from the Underground Storage Tank Fund to the Student Achievement and Teacher Quality Program (action included in HF 2623).
- Transfers \$10.0 million of insurance tax revenues to the Department for the Student Achievement and Teacher Quality Program (action included in HF 2623).
- Transfers \$5.0 million from the pari-mutual wagering and gambling revenues credited to the Rebuild Iowa Infrastructure Fund (RIIF) to the Department for the Student Achievement and Teacher Quality Program (action included in HF 2623).

**GOVERNMENT FINANCE
AND TAXATION**

MANAGING IOWA'S MONEY - CURRENT LAW

In recent years the Legislature proposed and the State of Iowa has implemented sound financial practices to achieve financial stability. Ongoing expenses have been brought into line with current revenues and the General Fund deficit, as calculated under Generally Accepted Accounting Principles (GAAP), has been eliminated. In the 1980s and early 1990s, Iowa experienced serious financial problems including tax revenues below expectations; expenditures above budget; and a lack of reserves. The Legislature established spending limits and reformed the budget process restoring fiscal integrity, improving cash flow, and creating balances in reserve funds.

The Governor and the General Assembly have statutory responsibility to balance the budget. In 1992, several statutory reforms were enacted to provide long-term solutions to the State's budget problems. These included the "Expenditure Limitation" laws.

- Spending is limited to 99.0% of adjusted revenues, 95.0% of any new revenue implemented in a fiscal year, and any carry-over from the previous year.
- The Governor and the Legislature are required to use the revenue estimates agreed to by the December Revenue Estimating Conference or a later estimate during the legislative session, if it is lower, as a basis to determine the General Fund Budget for the following fiscal year.
- Three reserve accounts or funds have been created: the Cash Reserve Fund; the GAAP Deficit Reduction Account; and the Economic Emergency Fund (Rainy Day Fund).
- Expenditures from these reserve funds are limited by statute.

**IOWA'S RESERVE FUNDS
(RAINY DAY FUNDS)****Cash Reserve Fund**

- The year-end General Fund Surplus (ending balance) is appropriated to the Cash Reserve Fund, however, statute was amended for FY 2002.
- The cash reserve goal is 7.5% of the General Fund revenues (statute amended from 5.0% in HF 2625).
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but shall be returned by the end of the fiscal year.
- Expenditures from the Cash Reserve Fund are limited to nonrecurring emergency expenditures.

**Generally Accepted Accounting Principles (GAAP)
Deficit Reduction Fund**

- Unexpended money from the General Fund, after the Cash Reserve Fund target is made, is also deposited to the GAAP Fund.
- Funds are appropriated for the purpose of eliminating the State's GAAP deficit. The GAAP deficit was eliminated during FY 1995.

The Economic Emergency Fund

- Established in 1984 and modified in recent years.
- The maximum balance of the Fund is 2.5% of the adjusted General Fund revenue estimate (statute amended from 5.0% in HF 2625).
- Once all GAAP obligations are retired, remaining funds are credited to the Economic Emergency Fund.
- Moneys in the Cash Reserve Fund may be used for cash flow purposes but shall be returned by the end of the fiscal year.
- Spending from the Fund is limited to emergency expenditures.
- Legislation passed during the November 2001 Special Session limited such transfers to \$50.0 million. Allows for an appropriation from the Economic Emergency Fund to reduce a negative ending balance in the State General Fund. The appropriation is limited to \$50.0 million and is contingent upon certain circumstances. (In FY 2001, \$66.1 million was transferred from the Economic

**IOWA'S RESERVE FUNDS
(RAINY DAY FUNDS) (Cont'd.)**

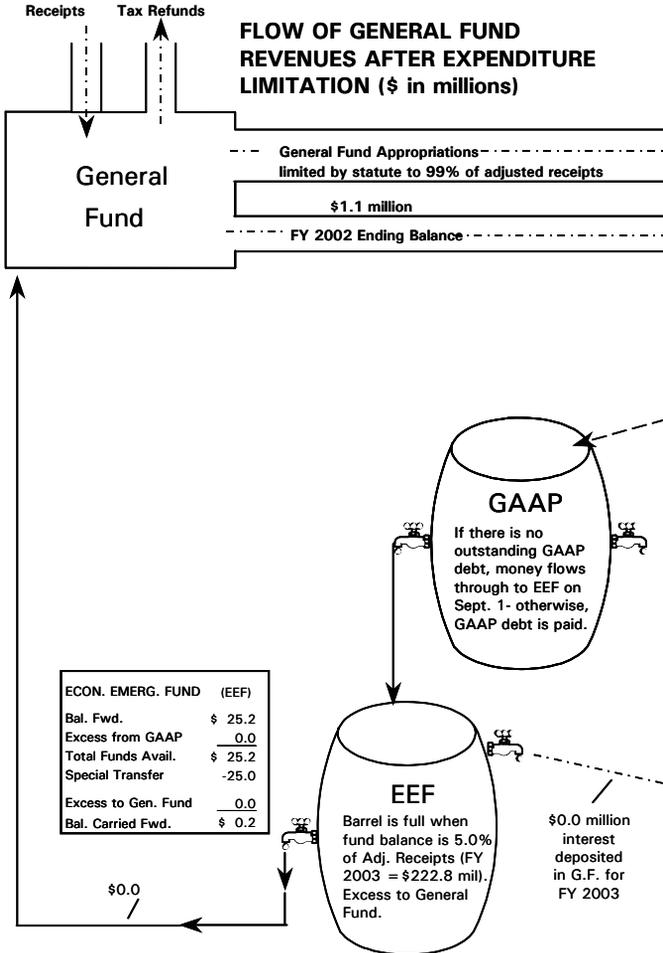
Emergency Fund to the General Fund to offset a
General Fund deficit.)

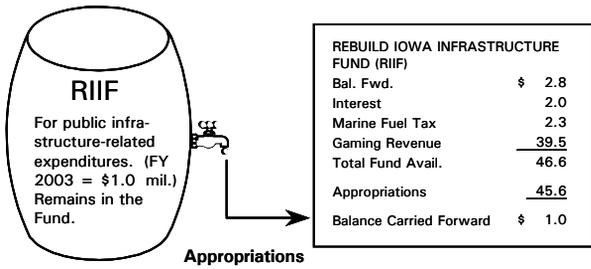
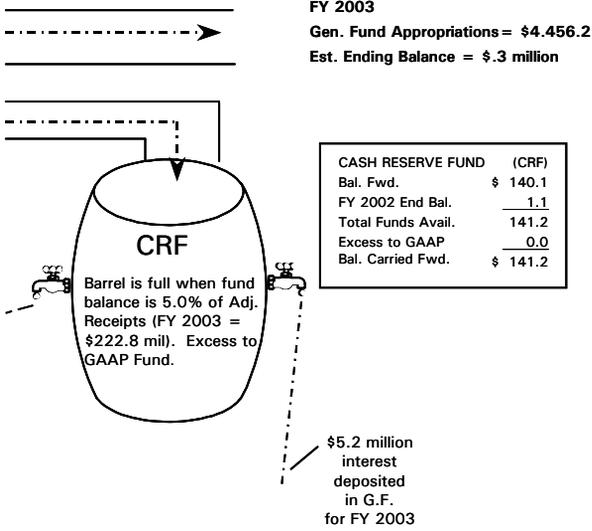
**Reserve Fund Appropriations
(\$ in millions)**

Fund	Actual 2001	Est. 2002	Est. 2003
Cash Reserve	\$ 0.0	\$ 90.0	\$ 0.0
GAAP	0.0	0.0	0.0
Economic Emerg.	66.1	149.9	25.0

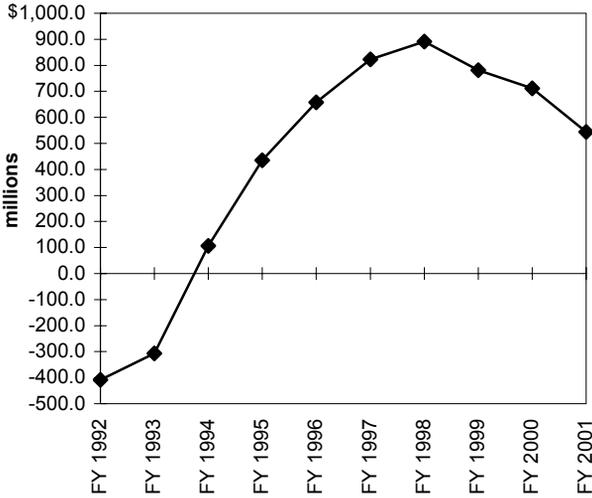
**Reserve Fund Balances
(\$ in millions)**

Fund	Actual 2001	Est. 2002	Est. 2003
Cash Reserve	\$ 235.6	\$ 140.1	\$ 141.2
GAAP	0.0	0.0	0.0
Economic Emerg.	169.6	25.2	0.2





**GENERAL FUND BALANCE
UNRESERVED - GAAP BASIS
FY 1992 - FY 2001**



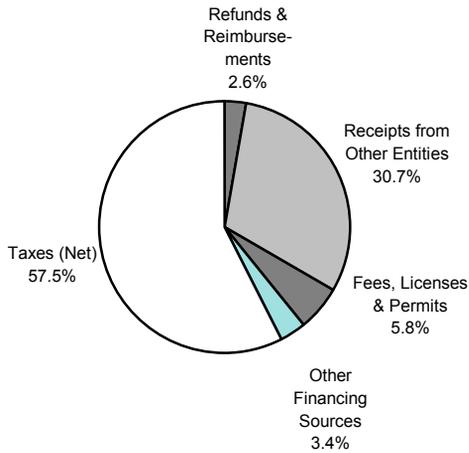
GAAP = Generally Accepted Accounting Principles

- Changes in the budgetary/legal basis fund balance will have a direct impact on the GAAP basis fund balance.
- In FY 1992, the State initiated a plan to eliminate the GAAP deficit by FY 1995. Budget reform initiatives, a solid Iowa economy, implementation of Governmental Accounting Standards Board Statement No. 22, (*Accounting For Taxpayer-Assessed Tax Revenues in Governmental Funds*), and a 25.0% increase in the State sales, services, and use tax, were the primary reasons for the early elimination of the GAAP deficit.

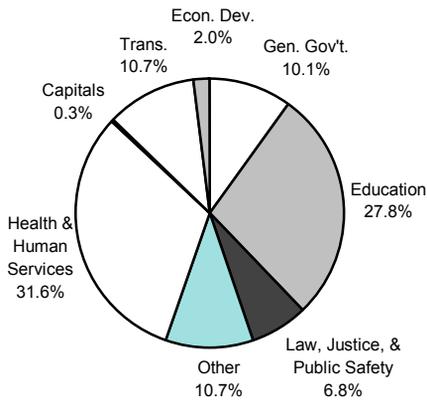
**STATE FUNDING SOURCES
AND EXPENDITURES**

Most State operations are accounted for through governmental fund types (as specified in the Iowa Comprehensive Annual Financial Report): General, Special Revenue, and Capital Projects. Governmental revenues and other financing sources totaled \$9.2 billion for FY 2001. Net tax receipts decreased \$60.9 million (1.1%) compared to FY 2000. Receipts from other entities increased \$141.8 million (5.3%) compared to FY 2000.

FY 2001 Governmental Revenues and
Other Financing Sources

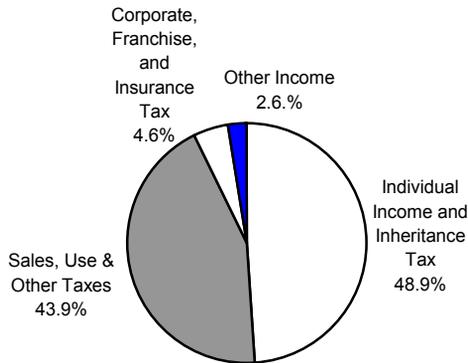


Note:
Includes all Iowa governmental fund types, expendable trust funds, and component units (State Fair, Iowa Finance Authority, etc.).

**STATE FUNDING SOURCES
AND EXPENDITURES (Cont'd.)**FY 2001 Governmental Expenditures and
Other Financing Uses

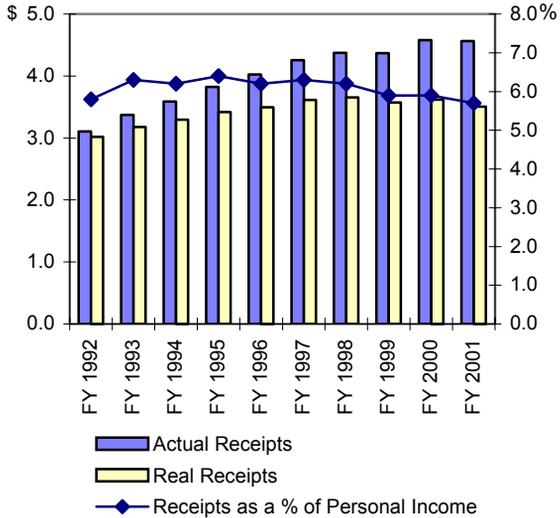
Governmental expenditures and other financing uses totaled \$9.253 billion for FY 2001. Health and Human Services increased \$261.4 million (9.8%), and Education increased \$96.7 million (3.9%) compared to FY 2000. The amounts listed are from State funds in the categories of General, Special Revenue, and Capital projects (Comprehensive Annual Financial Report).

**SOURCES OF GENERAL FUND GROWTH
FY 1992 - FY 2001**



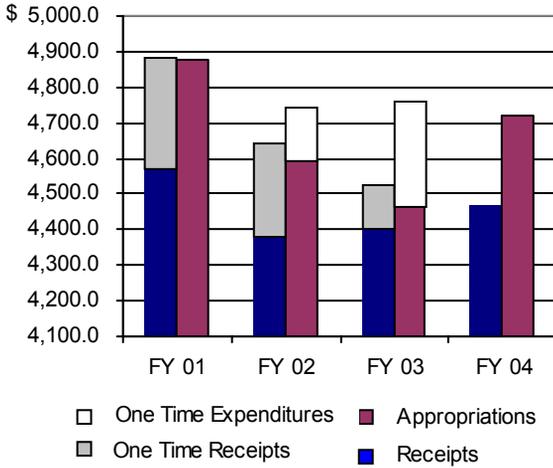
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- Total receipts net of refunds increased \$1.509 billion (47.7%) from 1992 to FY 2001. This represents an average annual growth rate of 5.3%.
 - Since FY 1992, growth in personal income and inheritance tax accounted for 48.9% of the total increase in General Fund receipts. Sales and use tax (including beer, cigarette, and liquor profit transfers) was second, and accounted for 43.9% of the total increase. Taxes paid by businesses (corporate income, franchise tax, and insurance tax) account for 4.6% of the increase.

**GENERAL FUND RECEIPTS HISTORY
FY 1992 - FY 2001
(\$ in billions)**



- Actual General Fund Receipts are not adjusted for inflation and are net of refunds.
- Real Receipts are net General Fund Receipts adjusted for inflation, using the Consumer Price Index (1991=100).
- Receipts as a Percentage of Personal Income are actual net receipts divided by Personal Income. This is a measure of the change in the magnitude of the General Fund relative to the Iowa economy.
- From FY 1992 through FY 2001, Iowa General Fund net receipts (includes transfers and after refunds) grew \$1.456 billion (46.8%). During that same period, Iowa's total State personal income grew \$27.5 billion (51.7%).
- In FY 1992, Iowa General Fund net receipts equaled 5.8% of total State personal income. In FY 2001, net General Fund receipts equaled 5.7% of personal income.
- Adjusted for inflation, the General Fund net receipts growth was \$0.491 billion.

HISTORICAL GENERAL FUND RECEIPTS AND EXPENDITURES AND PROJECTED FY 2004 (\$ in millions)



- Fiscal Year 2004 revenue reflects an assumption of 2.0% growth. To change this assumption by 1.0% add or subtract \$44.0 million.
- Fiscal Year 2004 expenditures reflect the FY 2003 level and one-time expenditures from other sources. Additional potential increases for FY 2004 total approximately \$300.0 million and include: the coupling with federal tax law (\$108.0 million), Medicaid (\$55.0 million), School Aid 2.0% Allowable Growth (\$53.2 million), Collective Bargaining (\$41.0 million - FY 2003 level), and Healthy lowans (\$28.3 million).

**FY 2002 SHIFT OF EXPENDITURES/REVENUES
TO THE GENERAL FUND
(\$ in millions)**

	Estimated
	FY 2002
FY 02 Expenditures	
Economic Emergency Fund to K-12	\$ 44.9
Teacher Comp. - Tobacco	40.0
DHS LTC Provider Rate - SLTF	24.7
DHS Nurse Facility Grant - SLTF	20.0
Sal. Adj. Fund - UST	9.0
Sal. Adj. Term. Liability - UST	9.0
Indigent Defense - Term. Liability	3.0
Medical Assistance - Physical Infrastructure	2.5
Medical Assistance - Startegic Investment	2.0
Appeal Board - Environment First	1.5
Medical Assistance - Alternative Drainage	1.1
Medical Assistance - Environment First	1.0
Unemployment Comp. - Victims Comp.	1.0
Medical Assistance - Snowmobile Fund	0.9
Medical Assistance - ATV Fund	0.8
Performance of Duty - Terminal Liability	0.3
Medical Assistance - Cultural Grants	0.3
Medical Assistance - Rail & Aviation	0.3
Elderly Credit - VAAPFAP	0.3
Elderly Credit - Terminal Liability	0.2
Performance of Duty - Environment First	0.1
<i>Total</i>	\$ 162.9
FY 02 Revenue	
Economic Emergency Fund to the General Fund	\$ 105.0
Cash Reserve Fund to the General Fund	90.0
Reserve Fund Interest to the General Fund	20.0
Groundwater Transfer to the General Fund	7.0
RIIF Regents Proj. to the General Fund	7.0
Waste Tire Fund to the General Fund	3.0
Environment First Fund to the General Fund	1.7
Terminal Liability Fund to the General Fund	0.1
<i>Total</i>	\$ 233.8

**FY 2003 SHIFT OF EXPENDITURES/REVENUES
TO THE GENERAL FUND
(\$ in millions)**

	Estimated	
	FY 2003	
FY 03 Expenditures		
Salaries Cut Furlough Days	\$	33.6
Regent Demutualization To Salaries		30.0
Economic Emergency Fund to K-12		25.0
DHS Medicaid - SLTF		21.7
Tobacco Settlement To K-12		20.0
Regent Tuition Replacement - RIIF		16.8
DHS Medicaid - SLTF		16.0
ICN Debt Service		12.2
DHS Medicaid - Hospital Trust		12.0
Sal. Adj. Fund - UST		11.0
Student Achievement - Premium Tax		10.0
DHS Medicaid - Tobacco		10.0
Regent Tuition Replacement - Tobacco		9.2
Student Achievement - UST		8.9
School Technology - RIIF		5.8
Prison Infrastructure Debt Service		5.2
Student Achievement - RIIF		5.0
Capitol Security - RIIF		0.9
<i>Total</i>	\$	253.3
FY 03 Revenue		
School Infrastructure to the General Fund	\$	22.0
Environment First Fund to the General Fund		18.8
RIIF To The General Fund		16.1
UST to the General Fund		10.0
Endowment for Iowa's Health to the General Fund		9.0
Prison Infrastructure to the General Fund		7.6
Reserve Fund Interest to the General Fund		5.2
Title Guarantee to the General Fund		2.7
Vehicle Depreciation Fund		2.2
Waste Tire Fund to the General Fund		1.6
Groundwater Protection Fund		1.0
Jury & Witness Fund		1.0
Lottery Transfer		0.5
Innovations Fund		0.4
<i>Total</i>	\$	98.1

**MAJOR STATE AND LOCAL
TAX SOURCES**

State Taxes	2002 Rate	Description
Individual Income Tax	0.36% to 8.98%	<ul style="list-style-type: none"> • Tax is paid on personal net income earned in Iowa. For tax year 2002, the filing threshold for a couple is \$13,500. The top rate applies to couple's taxable income in excess of \$54,495.
Sales and Use Tax	5.00%	<ul style="list-style-type: none"> • Tax is paid on the final sale of most goods and services. Food, prescription drugs, and professional services are the major exemptions.
Motor Vehicle Fuel Tax		<ul style="list-style-type: none"> • Tax is paid on purchases of various gas and fuel sources. Receipts are deposited in the Road Use Tax Fund.
Gasoline	\$0.201 per gallon	
Ethanol	\$0.190 per gallon	
Diesel	\$0.225 per gallon	
Liquid Propane	\$0.200 per gallon	
Aviation Gasoline	\$0.080 per gallon	
Aviation Jet Fuel	\$0.030 per gallon	
Compressed Nat. Gas	\$0.16/100 cubic feet	
Corporate Income Tax	6.00% to 12.00%	<ul style="list-style-type: none"> • Tax is paid on net income of corporations doing business within Iowa. Top rate applies to taxable income over \$250,000.
Insurance Premium Tax	2.00%	<ul style="list-style-type: none"> • Tax is imposed on adjusted gross amount of premiums (excluding annuities) of every insurance company except fraternal beneficiary associations.
Cigarette Tax	\$0.36 per package	<ul style="list-style-type: none"> • Tax is imposed on the sale of cigarettes.
Tobacco Tax	22.00%	<ul style="list-style-type: none"> • Tax is imposed on the wholesale price of tobacco, excluding tobacco subject to the cigarette tax.
Franchise Tax	5.00%	<ul style="list-style-type: none"> • Tax is imposed on the deposits of most types of banks and financial institutions.

**MAJOR STATE AND LOCAL
TAX SOURCES (Cont'd.)**

State Taxes	2002 Rate	Description
Inheritance Tax	1.00% to 15.00%	<ul style="list-style-type: none"> • Tax is imposed on beneficiaries other than lineal descendants. Rates and brackets vary according to relationship of beneficiary to the deceased.
Local Taxes	2002 Rate	Description
Property Tax	Varies - the residential average rate is approximately 3.0% of taxable valuation.	<ul style="list-style-type: none"> • Tax is imposed on the taxable assessed value of real property, including land and buildings. Tax is being phased out for machinery, equipment, and computers.
Local Option Sales Tax	1.00%	<ul style="list-style-type: none"> • Tax is added to general State sales tax but not to use tax. State remits collections to local cities and counties.
Local Option Sales Tax for Schools	1.00%	<ul style="list-style-type: none"> • Tax is added to general State sales tax but not to use tax. State remits collections to school districts.
Hotel/Motel Tax	Varies - it may not exceed 7.00%.	<ul style="list-style-type: none"> • Tax is imposed on the gross receipts of hotel and motel room rentals. Disbursed to local governments imposing the tax.
Individual Income School District tax	Varies - it may not exceed 20.00% of State income tax liability.	<ul style="list-style-type: none"> • Tax is imposed by school districts on residents' State income tax payments.

GENERAL FUND RECEIPTS
(\$ in millions)

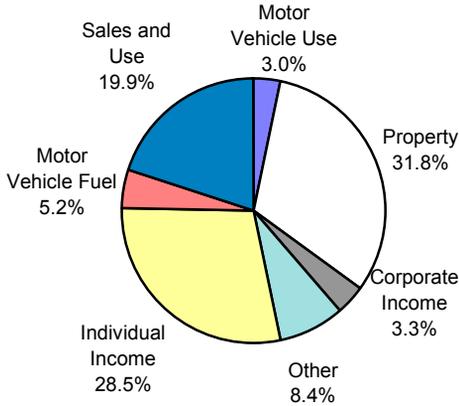
	Estimated FY 2003 REC	Percent of Total Receipts
Tax Receipts		
Personal Income Tax	\$ 2,370.5	47.4%
Sales Tax	1,458.9	29.1%
Use Tax	236.8	4.7%
Corporate Income Tax	202.7	4.0%
Inheritance Tax	89.6	1.8%
Insurance Premium Tax	145.0	2.9%
Cigarette Tax	87.2	1.7%
Tobacco Tax	7.2	0.1%
Beer Tax	13.6	0.3%
Franchise Tax	28.6	0.6%
Miscellaneous Tax	1.3	0.0%
Total Tax Receipts	4,641.4	92.7%
Other Receipts		
Institutional Payments	44.8	0.9%
Liquor Profits	39.0	0.8%
Liquor 7% Revenues	9.0	0.2%
Interest	8.0	0.2%
Fees	63.5	1.3%
Judicial Revenue	51.0	1.0%
Miscellaneous	35.6	0.7%
Racing and Gaming	60.0	1.2%
Transfers	49.7	1.0%
Accruals	3.6	0.1%
Total Other Receipts	364.2	7.3%
Total Receipts	5,005.6	100.0%
Refunds	- 606.0	- 12.1%
Net Receipts	\$ 4,399.6	87.9%

REC = Revenue Estimating Conference (May 2002)

Note:

Totals may not add due to rounding.

**DISTRIBUTION OF MAJOR STATE AND LOCAL
TAX SOURCES - ACTUAL FY 2001
(\$ in millions)**



Other = Inheritance (1.2%), Insurance Premium (1.5%), Beer (0.2%), Cigarette/Excise (1.1%), Franchise (0.4%), Local Option Sales (3.2%), Local Option Income (0.5%), and Hotel/Motel (0.3%)

Tax	Rate	Actual FY 2001	Percent of Major Tax Sources
Property	3.08%	\$ 2,707.3	31.8%
Individual Income	0.36% - 8.98%	2,426.6	28.5%
Sales & Use	5.00%	1,691.1	19.8%
Local Option Sales	1.00% - 2.00%	270.1	3.2%
Local Option Inc.	20.0% st. inc. tax	42.2	0.5%
Hotel/Motel	up to 7.00%	24.2	0.3%
Motor - Fuel	\$0.19 - \$0.23	446.8	5.2%
Corporate Income	6.00% - 12.00%	284.8	3.3%
Motor - Use	5.00%	254.9	3.0%
Insurance Premium	2.00%	126.6	1.5%
Cig./Excise	\$0.36 per pack	96.3	1.1%
Beer	\$0.19 per gallon	13.6	0.2%
Inheritance	1.00% - 15.00%	104.6	1.2%
Franchise	5.00%	31.2	0.4%
Total		\$ 8,520.3	100.0%

Note:
Totals may not add due to rounding.

STATE GAMBLING

Wagering Tax Revenue
(\$ in millions)

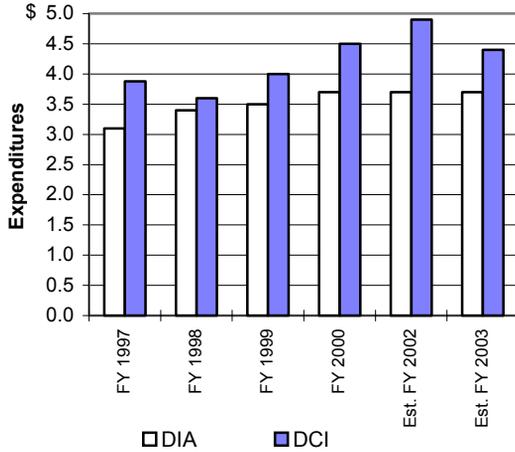
Fiscal Year	Pari-Mutuel	Riverboats	Slot Machines	Total
1994	\$ 1.7	\$ 6.8	NA	\$ 8.5
1995	1.7	31.7	\$ 13.5	46.9
1996	1.1	56.4	49.3	106.8
1997	1.1	75.3	48.9	125.3
1998	1.0	84.5	55.2	140.7
1999	0.8	92.9	65.4	159.1
2000	0.6	103.3	75.8	179.7
2001	0.7	114.0	84.7	199.4
Est. 2002	0.8	118.3	92.5	211.6
Est. 2003	0.8	118.3	98.5	217.6

Notes:

- 1) Cities and counties, in which the gaming takes place, each receive 0.5% and Gamblers Treatment 0.3% of the adjusted gross receipts for off-the-top allocations.
- 2) The next \$60.0 million in gambling revenues is deposited into the General Fund. After the General Fund deposit, a \$15.0 million annual transfer is made to the Vision Iowa Fund, a \$5.0 million transfer is made to the School Infrastructure Fund.
- 3) Should funds be available after the above allocation and transfer of \$80.0 million, a maximum of \$80.0 million is to be deposited into the Endowment for Iowa's Health Account of the Tobacco Settlement Trust Fund during FY 2002, \$75.0 million during FY 2003, and \$70.0 million for each year, FY 2004 through FY 2007. Transfers are made from the Endowment to the General Fund, Healthy Iowans Tobacco Trust, School Aid, and Tuition Replacement.
- 4) For FY 2003, should funds be available after the above allocations and transfers of \$155.0 million, a maximum of \$15.5 million is to be deposited into the General Fund.
- 5) Any remaining State wagering tax revenue is transferred to the Rebuild Iowa Infrastructure Fund.

STATE GAMBLING (Cont'd.)

**Regulatory Expenditures
(\$ in millions)**



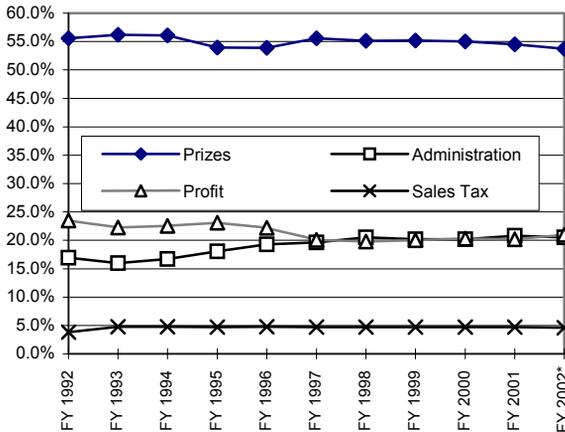
- The Racing and Gaming Commission within the Department of Inspections and Appeals (DIA) processes occupational license applications; prepares administrative rules; reviews incident reports, licensing applications, and background checks; and observes activities to ensure compliance with laws and regulations.
- The Division of Criminal Investigation (DCI) of the Department of Public Safety performs background checks and provides on-site enforcement of regulations.

**Regulatory Expenditures
(\$ in millions)**

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003
Riverboats			
DCI	\$ 4.3	\$ 4.2	\$ 4.4
DIA	\$ 1.5	\$ 1.5	\$ 1.5
Pari-Mutuel			
DCI	\$ 0.5	\$ 0.5	\$ 0.5
DIA	\$ 2.3	\$ 2.0	\$ 2.0

DCI = Division of Criminal Investigation
DIA = Department of Inspections and Appeals

LOTTERY EXPENSES AS A PERCENT OF TOTAL REVENUE



- From Lottery inception through FY 1997, annual Lottery profits exceeded annual Lottery administration expenses as a percent of total revenue. Due to declining sales and increased incentives for Lottery retailers, Lottery administrative expenses have been approximately equal to Lottery profits since FY 1997.
- The percentage of Lottery revenue returned to Lottery players in the form of prizes has been approximately 55.0% beginning in FY 1997.
- Included in the sales amount for FY 2002 is the receipt of \$1.2 million due to the demutualization of Principal Mutual Insurance Company, and \$1.8 million net settlement proceeds from a settlement with Scientific Games, Inc., the vendor for the replacement of store terminals. House File 2627 (FY 2003 Omnibus II - Second Special Session) requires the Lottery to deduct \$500,000 from its calculated retained earnings before making Lottery proceeds transfers to the State General Fund during FY 2003. The impact will be an increased one-time transfer of \$500,000 during FY 2003.

*The FY 2002 information is through April 2002.

**RESOURCE ENHANCEMENT AND
PROTECTION (REAP) FUND**

Funding for the Resource Enhancement and Protection (REAP) Fund is appropriated from the Environment First Fund. For FY 1997 through FY 1999, \$9.0 million annually was appropriated to the REAP Fund. In FY 2000, \$10.5 million was appropriated. For FY 2001 through FY 2002, \$10.0 million was appropriated to the REAP Fund.

For FY 2003, the General Assembly passed HF 2614 (FY 2003 Infrastructure Appropriations Act) that was signed by the Governor, and the REAP Fund was appropriated \$10.0 million from the Environment First Fund. During the Second Extraordinary Session, the General Assembly passed HF 2627 (FY 2003 Omnibus II Budget Bill) that deappropriated \$8.0 million from the REAP Fund and transferred the money to the General Fund. The Bill also specifies the remaining \$2.0 million be used to reimburse political subdivisions for lost property taxes on land purchased by the Department of Natural Resources using funds from the Open Spaces Account in the REAP Fund.

IOWA'S CASH MANAGEMENT PRACTICES

Iowa's cash is managed by the State Treasurer's Office. To earn the most interest possible, cash is invested as soon as it is collected, while enough cash remains on hand to pay State bills. Funds of State agencies which are temporarily available for investment are pooled together and invested in certificates of deposit, U.S. Treasury bills and notes, and other corporate debt instruments as allowed by law. Investment goals are set by statute:

- Safety - restrictions on types of investments, limits on credit risk, maturities, and use of leverage is prohibited.
- Liquidity - always have the next 60 days of bills funded; purchase liquid securities.
- Yield - core portfolio invested for longer periods; use of laddered maturities.

The current size of the investment pool is approximately \$1.4 billion. The realized cash annual rate of return for FY 2001 was 6.27%.

DEBT ADMINISTRATION

The Constitution of the State of Iowa prohibits the State from exceeding a maximum of \$250,000 in general obligation debt without voter approval. However, statute authorizes the issuance of Tax and Revenue Anticipation Notes (TRANS), provided the total issuance does not exceed anticipated revenue receipts for the fiscal year and the total issuance mature during the fiscal year.

- The State did not issue TRANS during FY 2001.
- To date in FY 2002, the State has issued \$500.0 million in TRANS.

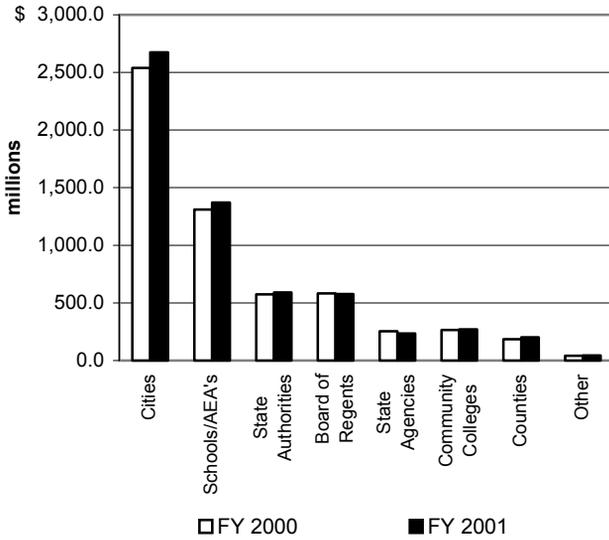
DEBT MANAGEMENT

The State of Iowa reported total outstanding debt of \$6.0 billion on June 30, 2001, for all governmental entities. This represents an increase of \$213.6 million (3.7%) compared to FY 2000. Debt financing is used for a variety of purposes which include: construction and renovation of public buildings, schools, housing and urban development, utilities, jails and prisons, park and recreational facilities, and local streets and parking lots.

A variety of financing mechanisms are available for use by the State and local units of government for public infrastructure improvements. These include:

- General obligation bonds
- Revenue bonds
- Certificates of participation (lease purchase)
- Special assessments on property
- Tax increment financing
- Special tax allocation and dedication such as hotel and motel taxes

OUTSTANDING DEBT BY ENTITY



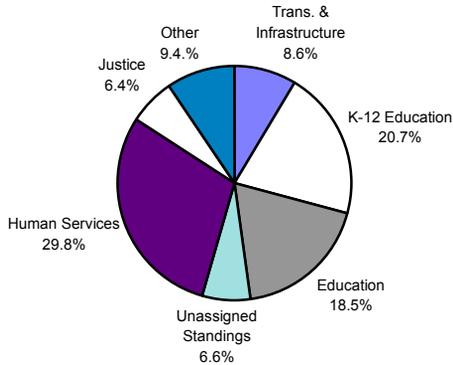
Entity	FY 2000	FY 2001
Cities	\$ 2,538,313,175	\$ 2,672,993,839
Schools/AEA's	1,308,168,154	1,371,218,713
State Authorities	574,311,671	591,781,954
Board of Regents	582,379,027	576,762,342
State Agencies	254,720,000	234,665,000
Community Colleges	266,278,828	271,593,795
Counties	184,820,167	201,365,087
Other	42,402,587	44,593,347
Total	\$ 5,751,393,609	\$ 5,964,974,077

**BUDGETS AND
APPROPRIATIONS**

IOWA'S BUDGET PROCESS

- The Governor and the State Legislature allocate state resources and set revenue collection levels through the budgeting process.
- The process begins in June of each year for the fiscal year which starts 12 months later on July 1.
- State agencies prepare budget requests within the guidelines set by the Governor and submit their requests by October 1. 
- The Revenue Estimating Conference meets before December 15 to set revenue estimates which will serve as a basis for the General Fund budget for the following fiscal year.
- The Governor submits annual recommendations to the Legislature in January.
- By statute, the Governor's budget must be balanced and must meet expenditure limitations.
- The Legislature conducts budget hearings during January and February. Recommendations from the nine joint budget subcommittees are passed on to Appropriations Committees and the floor for debate in each chamber.
- The State Constitution allows the Governor line-item veto authority over appropriations bills.

**APPROPRIATED SPENDING
FY 2003
(\$ in millions)**

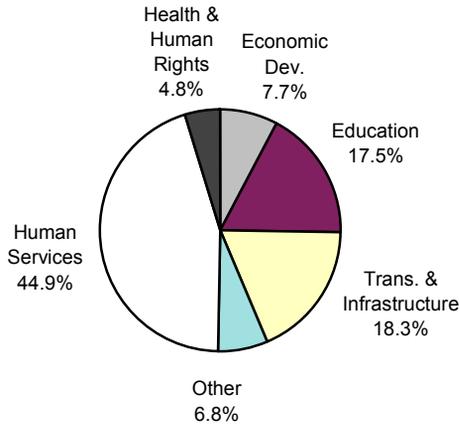


Categories	Est. FY 2003 Appropriations	Percentage
Admin. & Regulation	\$ 125.5	1.5%
Ag. & Natural Resources	99.3	1.2%
Economic Development	326.9	3.9%
K-12 Education	1,739.1	20.7%
Education	1,555.5	18.5%
Health & Human Rights	234.5	2.8%
Human Services	2,501.4	29.8%
Justice System	542.1	6.4%
Trans. & Infrastructure	719.2	8.6%
Unassigned Standings	557.3	6.6%
Total	\$ 8,400.8	100.0%

Notes:

- 1) This represents appropriations from the General Fund, Federal Funds, and Other Funds. For information on General Fund Appropriations, see page 6.
- 2) "Other" includes Administration and Regulation, Agriculture and Natural Resources, Economic Development, and Health and Human Rights.

**NON-GENERAL FUND APPROPRIATED FUNDS
ESTIMATED FY 2003
(\$ in millions)**

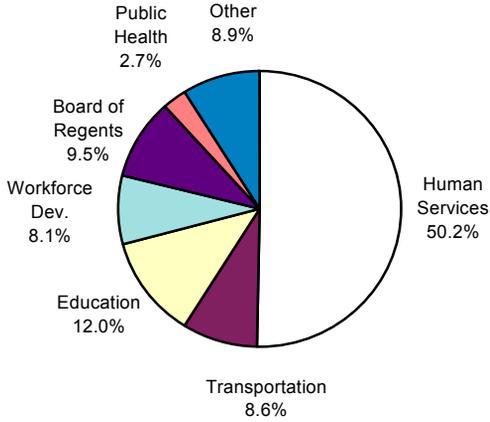


Subcommittee	Estimated FY 2003 Appropriations	Percent of Total
Admin. & Regulation	\$ 77.7	2.0%
Ag. & Natural Resources	66.6	1.7%
Economic Development	301.5	7.7%
Education	690.1	17.5%
Health & Human Rights	186.8	4.8%
Human Services	1,765.5	44.9%
Justice System	76.6	1.9%
Trans. & Infrastructure	719.2	18.3%
Unassigned Standings	48.1	1.2%
Total	\$ 3,932.1	100.0%

Notes:

- 1) Sources of non-General Fund appropriations include, but are not limited to: federal funds, the Road Use Tax Fund, the Primary Road Fund, the Tobacco Settlement Fund, and the Rebuild Iowa Infrastructure Fund.
- 2) "Other" includes Administration and Regulation, Agriculture and Natural Resources, Justice System and Unassigned Standings.
- 3) Totals may not add due to rounding.

**FEDERAL FUNDS
ESTIMATED FY 2003
(\$ in millions)**

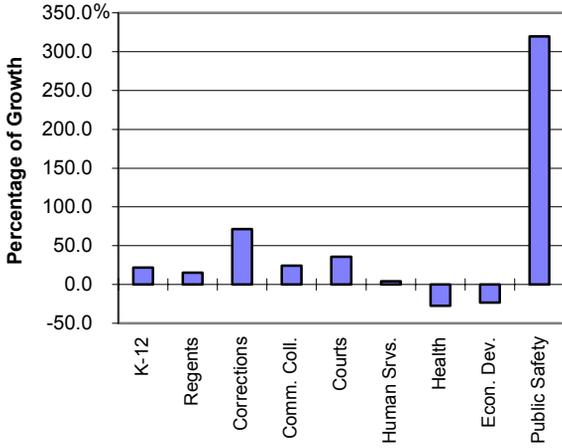


<u>Department</u>	<u>Est. FY 2003</u>	<u>Percent of Total</u>
Human Services	\$ 1,489.2	50.2%
Education	354.8	12.0%
Board of Regents	281.5	9.5%
Transportation	254.5	8.6%
Workforce Development	240.9	8.1%
Public Health	79.3	2.7%
Other	265.9	8.9%
Department Total	<u>\$ 2,966.1</u>	100.0%

Notes:

- 1) "Other" includes all other State agencies reporting federal funds.
- 2) Totals may not add due to rounding.

**GROWTH OF SELECTED
GENERAL FUND BUDGETS
FY 1994 - FY 2003**



**CHANGE IN SELECTED BUDGETS
FY 1994 - FY 2003
(\$ in millions)**

Budget	Difference	Percent Difference
K-12	\$ 296.9	21.6%
Regents	80.9	15.1%
Corrections	100.8	71.4%
Community Colleges	27.1	24.3%
Courts	29.3	35.7%
Human Services	29.8	4.2%
Public Health	- 9.3	- 27.4%
Economic Development	- 5.1	- 23.5%
Public Safety	45.2	319.6%
Selected Budgets Total	\$ 595.6	63.5%
Total Other Changes	342.8	36.5%
Total Increase	\$ 938.4	100.0%

Note:

K-12 also received \$45.0 million from wagering tax receipts (\$20.0 million) and the Economic Emergency Fund (\$25.0 million) in FY 2003.

INFRASTRUCTURE FUNDING

Appropriations from infrastructure revenue sources include funding for environmental programs, technology projects, debt service on certain bonds, tobacco settlement attorney litigation payments, as well as capital and infrastructure projects. These appropriations bills have included three main sources of funds: The Rebuild Iowa Infrastructure Fund (RIIF), Restricted Capital Fund of the Tobacco Settlement Trust Fund, and the Environment First Fund.

The RIIF was established in Section 8.57(5), Code of Iowa, to be used for public infrastructure-related expenditures as directed by the General Assembly. The Fund receives revenue from the following sources:

- The interest earned by the Cash Reserve Fund and the Economic Emergency Fund in accordance with Sections 8.55(4) and 8.56(1), Code of Iowa. In FY 2002 and FY 2003, the interest has been transferred to the General Fund.
- In FY 2003, State Wagering Tax revenues in excess of \$155.0 million. The distribution of the State Wagering Taxes is as follows: \$60.0 million to the General Fund; \$15.0 million to the Vision Iowa Fund; \$5.0 million to the School Infrastructure Fund; \$75.0 million to the Endowment for Iowa's Health Account; and \$54.9 million (estimated) to the RIIF. In FY 2003, the General Assembly transferred \$15.5 million of the RIIF allocation to the General Fund.
- The RIIF also retains interest earned on itself and receives Marine Fuel tax receipts, after the first \$411,000 are deposited into the General Fund.

The revenue in the Restricted Capital Fund is from \$540.0 million of tax-exempt bond proceeds that were issued through the tobacco securitization process, and the interest earned on the proceeds. Appropriations from the Fund are required to be used for depreciable assets, and in a manner that does not adversely affect the tax-exempt status of the bonds.

Appropriations for the FY 2003 infrastructure and related projects total \$244.0 million. This includes \$164.9 million from the Restricted Capital Fund, \$16.8 million from the State Wagering Tax allocation to the Endowment for Iowa's Health Account, and \$45.6 million from the RIIF. Included in the RIIF appropriations is \$35.0 million for the Environment First Fund.

INFRASTRUCTURE FUNDING APPROPRIATIONS
 (\$ in millions)

	FY 2003			
	RIIF	RCF	Wagering	
			Tax	Total
Environ. First Fund	\$ 35.0	\$ 0.0	\$ 0.0	\$ 35.0
Iowa Comm. Network	2.7	5.0 *	0.0	2.7
Information Tech.	0.6	4.4	0.0	5.0
Education	5.0	1.0	0.0	6.0
Corrections	0.3	9.6	0.0	9.9
Cultural Affairs	0.1	0.0	0.0	0.1
Economic Dev.	0.0	5.8	0.0	5.8
General Services	0.9	46.4	0.0	47.3
Human Services	0.0	0.2	0.0	0.2
State Fair Authority	0.0	0.5	0.0	0.5
Judicial Branch	0.0	2.0	0.0	2.0
Public Defense	0.0	1.8	0.0	1.8
Public Safety	0.9	0.0	0.0	0.9
Board of Regents	0.0	45.0	0.0	45.0
Tuition Replacement	0.0	10.5	16.8	27.3
Transportation	0.0	3.7	0.0	3.7
Natural Resources	0.0	3.8	0.0	3.8
Treasurer of State	0.0	46.9	0.0	46.9
Veterans Affairs	0.1	0.0	0.0	0.1
Total	\$ 45.6	\$ 181.6	\$ 16.8	\$ 244.0

*Contingent Appropriation. Not included in total.

RCF = Restricted Capital Fund (Tobacco)

RIIF = Rebuild Iowa Infrastructure Fund

Note: Totals may not add due to rounding.

SALARY ADJUSTMENT

Salary adjustment is an increase allocated to each department's personnel services budget to provide funding for such things as Cost of Living Adjustments (COLA), changes in the cost of health insurance premiums, salary annualization, and merit step increases that will take place sometime during the upcoming fiscal year.

For FY 2003, \$41.0 million was transferred to the Salary Adjustment Fund administered by the Department of Management for the General Fund share of salary adjustments. The transfer came from two sources:

- \$30.0 million from the proceeds received by the Board of Regents as a result of the demutualization of Principal Mutual.
- \$11.1 million of unallocated Underground Storage Tank Funds.

The Department of Management will allocate the funds to State agencies by July 1.

Salary annualization provides departments with funds to pay for merit step increases that were not provided for in the prior year's Salary Adjustment Bill. For example, if an employee received a merit step increase in March 2001, an amount sufficient to pay the merit step increase for three months during FY 2001 would have been provided for in the FY 2001 Salary Adjustment Bill. Salary annualization would be included in the FY 2002 Salary Adjustment Bill to provide the department with funding for the employee's merit step from July 2001 to March 2002 (nine months).

If all employees had review dates at the beginning of the fiscal year, there would be no salary annualization due to merit step increases. However, if this was the case, the cost of salary adjustment would increase proportionately.

**STATE AND LOCAL
GOVERNMENT**

**ANNUAL COST PER PARTICIPANT
FOR MAJOR STATE PROGRAMS
ESTIMATED FY 2002**

	Number of Participants	Average Annual Cost Per Participant	
		State Aid	Total Gov't.
Corrections			
Prison Inmates ^a	8,006	\$ 22,553	\$ 22,553
Education - Students			
K-12 ^b	489,773	\$ 3,522	\$ 5,476
ISD	127	62,137	62,137
IBSSS	38	116,392	116,392
Community Colleges ^c	64,404	2,136	2,426
Regents - Higher Education	51,517	10,392	10,392
Private Colleges ^d	14,765	3,194	3,194
Human Services			
Foster Care ^e	3,853	\$ 9,592	\$ 21,884
Mental Health Institutions ^f	436	101,991	109,085
State Resource Centers ^f	685	10,808	120,733
Family Investment Program	56,509	1,043	2,176
Medical Assistance	238,043	1,872	7,588

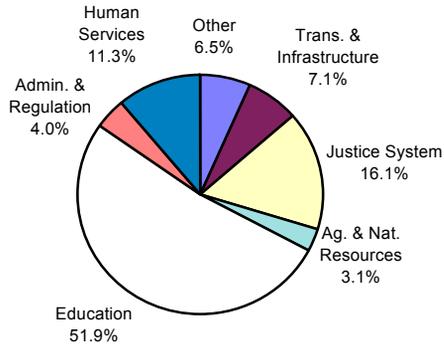
Notes:

- a) Average prison population.
- b) Total government includes all property tax generated by school aid formula but not individual district levies.
- c) Total government includes property tax for operations only. Infrastructure, management, and other levies are not included.
- d) Number of participants includes only students who receive tuition grants.
- e) Group Foster Care and Family Foster Care.
- f) Represents capacity rather than participants.

ISD = Iowa School for the Deaf

IBSSS = Iowa Braille and Sight Saving School

**FULL-TIME EQUIVALENT POSITIONS
ESTIMATED FY 2003**



Subcommittee	Estimated FY 2003	Percent of Total
Admin. & Regulation	1,976.7	4.0%
Ag. & Natural Resources	1,560.9	3.1%
Economic Development	1,352.1	2.7%
Education	25,979.2	51.9%
Health & Human Rights	1,508.8	3.0%
Human Services	5,626.7	11.3%
Justice System	8,065.7	16.1%
Trans. & Infrastructure	3,554.0	7.1%
Unassigned Standings	412.1	0.8%
Total	50,036.2	100.0%

Notes:

- 1) "Other" includes Economic Development, Health and Human Rights, and Unassigned Standings.
- 2) Totals may not add due to rounding.

**COLLECTIVE BARGAINING SETTLEMENTS
FY 2002 - FY 2003**

The values listed in the table below are the cost-of-living adjustments specified by state employee collective bargaining contracts.

	<u>FY 2002</u>	<u>FY 2003</u>
AFSCME	3.00%	3.00%*
JUDICIAL AFSCME	3.00%	3.00%
IUP	3.00%	3.00%
SPOC	3.00%	3.00%
UFI	5.60%	5.60%
PPME	3.00%	3.00%
COGS	4.00%	4.00%
SEIU	6.60%	5.98%

*Effective 11/1/02

Note:

Contracts allow for merit step increases for employees granted merit steps for both FY 2002 and FY 2003. AFSCME and SPOC increased the number of steps in the pay plan and adjusted review dates.

AFSCME = American Federation of State, County, and Municipal Employees

IUP = Iowa United Professionals

SPOC = State Police Officers Council

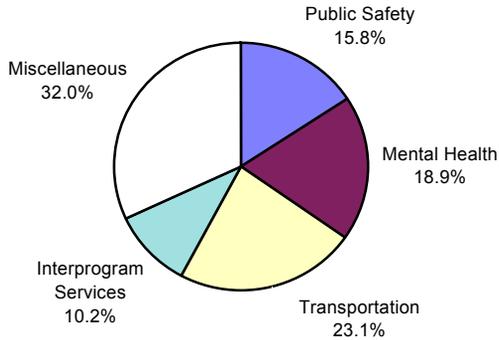
UFI = United Faculty of Iowa

PPME = Public Professional and Maintenance Employees

COGS = Campaign to Organize Graduate Students

SEIU = Service Employees International Union/Tertiary Health Care Unit, University of Iowa

**BUDGETED COUNTY
EXPENDITURES
FY 2002**



Budgeted County Expenditures	Estimated FY 2002
Public Safety	\$ 252,971,264
Mental Health	302,251,363
Transportation	369,723,872
Interprogram Services	164,268,517
Miscellaneous	
State & Local Gov't. Services	49,182,091
Physical Health Education	74,026,127
Social Services	102,447,773
County Environment	87,661,303
Debt Service	29,081,395
Capital Projects	148,525,562
Court Services	18,053,220
Other	4,317,955
Total	\$ 1,602,510,442

Note:

The FY 2002 ending fund balances for all counties is \$422.2 million.

**GENERAL FUND FINANCIAL ASSISTANCE
TO LOCAL GOVERNMENTS
(\$ in millions)**

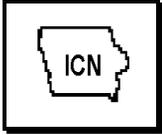
	Actual	Est.	Est.
	FY 2001	FY 2002	FY 2003
District School Aid*	\$ 1,918.3	\$ 1,835.3	\$ 1,887.4
Community Empowerment	15.6	14.7	14.0
Community College Aid	147.6	137.6	138.6
Single County Contracts**	12.0	10.7	10.6
Substance Abuse Grants***	2.0	0.9	0.9
Elderly Services	4.4	3.8	3.4
Child & Family Services	108.8	101.4	98.1
Family Investment Program	35.2	34.6	35.3
Community Mental Health/ Mental Retardation Fund	19.6	18.7	17.8
Medical Assistance	409.9	395.4	377.2
Community-based Programs	0.3	0.5	0.0
Peace Officers Retirement Reimbursement	2.9	2.8	2.8
Public Transit Assistance	14.8	8.9	8.5
Aviation Assistance	2.4	2.1	0.0
Fire Fighter Training	0.7	0.6	0.5
Homestead Tax Credit	114.0	110.9	105.6
Agriculture Land Tax Credit	39.1	37.4	35.5
Elderly/Disabled Property Tax Credit	15.8	15.9	15.8
Franchise Tax	8.8	8.4	8.0
Military Tax Credit	2.6	2.6	2.6
Personal Property Tax Replacement	56.3	53.9	51.1
Mental Health	114.9	103.8	109.2
Machinery & Equipment Reimbursement	41.6	16.1	21.0
Livestock Production Credit	2.0	1.9	1.8
Total Assistance	\$ 3,089.6	\$ 2,918.9	\$ 2,945.7
Total Assistance as a Percent of General Fund Expenditures	63.2%	63.3%	65.9%

* Includes funding from Excellence in Education, Instructional Support, Tech./School Improvement, Child Development, Student Achievement/Teacher Quality and Transportation/Non-public. School Aid shown does not include \$44.9 million appropriated from Other Funds in FY 2002 and \$45.0 million in FY 2003.

** Single County Contracts include Well Elderly Clinics, Public Health Nursing, and Home Health Aid.

*** For FY 2001, an additional \$11.9 million was appropriated from the Tobacco Settlement Fund and \$2.1 million was allocated from the Gambling Treatment Fund appropriation to the Department of Public Health.

**** Totals may not add due to rounding.

THE IOWA COMMUNICATIONS NETWORK

The Iowa Communications Network (ICN) was created by the 1989 General Assembly as a fiber optic "Highway" capable of carrying all forms of communications traffic, including voice, distance education, telemedicine, government information and services, and computer network data. Fiber optics converts voice, video, and data signals into digital light impulses which are transmitted over hair-thin glass fibers.

Installation of the Network began in 1991 as a three-part project.

- Part I consists of 20 connection sites. These include 15 regional centers located at each of the community colleges throughout the State, the three Regents Universities, Iowa Public Television, and the State Capitol complex.
- Part II consists of 84 connection sites. These include separate fiber optic lines from the respective regional center to each of the remaining counties. These sites are typically known as County Points of Presence (CPOP or POP).
- Part III currently consists of 408 sites. Additional sites meeting the requirements of authorized users can be added. However, the new sites will have to pay all costs of connecting to the ICN.

Parts I and II of the Network were completed at a cost of \$114.5 million which was funded by Certificates of Participation. Parts I and II are typically referred to as the "backbone" of the Network and the connections are owned by the State. Part III connections were constructed by private vendors and most are leased by the State, except for certain sites (approximately 21) owned by the State as the result of a National Guard ICN project. The majority of the Part III sites are K-12 schools.

THE IOWA COMMUNICATIONS NETWORK (Cont'd.)

In FY 2000, the ICN began converting the Network to asynchronous transfer mode (ATM) and MPEG II technology. This will increase capacity of the Network and replace failing optics. As of the end of March 2002, two of the five ATM rings have been completed. These cover the southwest and northwest regions of the State. With the final appropriation of \$5,000,000, the other three rings will be completed during FY 2003.

For FY 2003, the appropriations included:

- \$1.0 million from the General Fund to the Iowa Telecommunications and Technology Commission (ITTC) for subsidization of operations related to video services. The Fund was able to be reduced by \$1.1 million compared to FY 2002, due to reimbursements from the Universal Federal Service Fund.
- \$13.0 million to the Treasurer of State for debt service from the Restricted Capital Fund (Tobacco).
- \$1.6 million from the General Fund to the Department of Education for Part III support services.
- \$2.7 million from the Rebuild Iowa Infrastructure Fund (RIIF) to the Commission. This is payment for maintenance and lease costs of Part III connections. The original leases are for a seven-year period. Leases will be renegotiated as they expire.
- \$5.0 million from the Restricted Capital Fund (Tobacco) to complete the ATM conversion. This appropriation is contingent upon the federal government certifying that the ICN will be used as a defense security test bed.

The Code of Iowa authorizes specific users. These include the Iowa National Guard, Iowa Public Television, libraries, State government agencies, community colleges, Regents institutions, private colleges and universities, all local school districts, area education agencies, hospitals and physician clinics, federal agencies, Iowa judicial and corrections systems, and the United States Postal Service.

THE IOWA COMMUNICATIONS NETWORK (Cont'd.)

ICN Classroom Sites as of April 2002:

16	Area Education Agencies
101	Community Colleges
390	K-12 School Districts
8	Other Education
50	Libraries
11	Medical Facilities
18	Private Colleges
32	Regent Institutions
57	National Guard
50	State Agencies
17	Federal Agencies
<u>4</u>	Miscellaneous Sites
<u>754</u>	Total

**IOWA COMMUNICATIONS NETWORK
FY 2001 - FY 2003 FUNDING**

<u>FY 2001</u>	<u>General Fund</u>	<u>Pooled Tech. Account or RIF Fund</u>
Part III Support - DOE	\$ 2,170,595	
ICN Rate Subsidization	3,181,920	
Debt Service	12,860,000	
Part III Connections -		
Maintenance & Leases - RIF		2,727,004
ATM Conversion - Pooled		3,500,000
Totals	<u>\$ 18,212,515</u>	<u>\$ 6,227,004</u>

<u>Estimated FY 2002</u>	<u>General Fund</u>	<u>Pooled Tech. Account or Tobacco Fund</u>
Part III Support - DOE	\$ 1,929,536	
ICN Rate Subsidization	2,116,871	
Debt Service	9,940,000	
Debt Service - Pooled FY 2001		\$ 1,400,000
Debt Service - Tobacco Fund		1,465,443
Part III Connections -		
Maintenance & Leases - Pooled		2,727,000
Maintenance & Leases - Tobacco		3,500,000
Totals	<u>\$ 13,986,407</u>	<u>\$ 9,092,443</u>

<u>Estimated FY 2003</u>	<u>General Fund</u>	<u>RIF or Tobacco Fund</u>
Part III Support - DOE	\$ 1,612,500	
ICN Rate Subsidization	1,027,503	
Debt Service - Tobacco Fund		\$ 13,044,784
Part III Connections -		
Maintenance & Leases - RIF		2,727,000
ATM Conversion - Tobacco		5,000,000
Totals	<u>\$ 2,640,003</u>	<u>\$ 20,771,784</u>

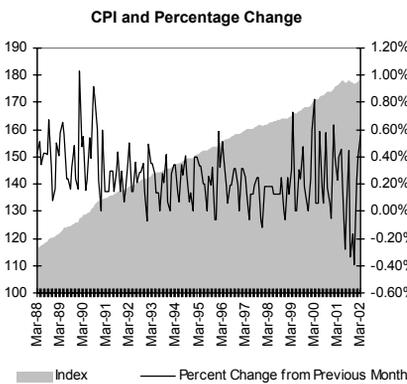
DOE = Department of Education
 ICN = Iowa Communications Network
 RIF = Rebuild Iowa Infrastructure Fund
 Pooled Tech. = Pooled Technology Account
 Tobacco Fund = Restricted Capital Fund (Tobacco)

IOWA ECONOMY

ECONOMIC SUMMARY

Iowa's economy, along with the national economy, had experienced six years of solid growth from 1995 to 2001. However, March 2001, marked the beginning of a national recession. Current indicators point to a possible upswing in the State economy.

The statewide unemployment rate in March 2002 was 3.4%, which is 0.3% percentage points higher than the level from March 2001. In December 2001, the State recorded its highest unemployment rate since January 1997 at 3.7%. Iowa's March 2002 unemployment rate is 2.3 percentage points lower than the March national unemployment rate (5.7%). Total employment in Iowa was 1,547,900 in March 2002, an increase of 18,400 compared to March 2001. The manufacturing sector had added several hundred workers after several months of declining employment.

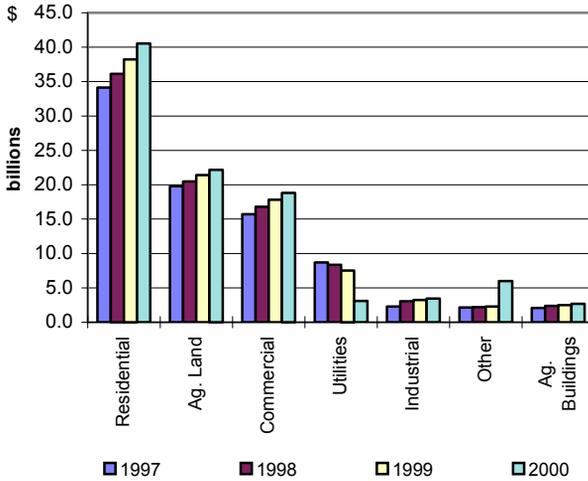


The Iowa Forecasting Council estimates that aggregate personal income in Iowa increased by 4.4% in 2001, compared to a 6.2% increase in 2000. The Council estimates that farm income

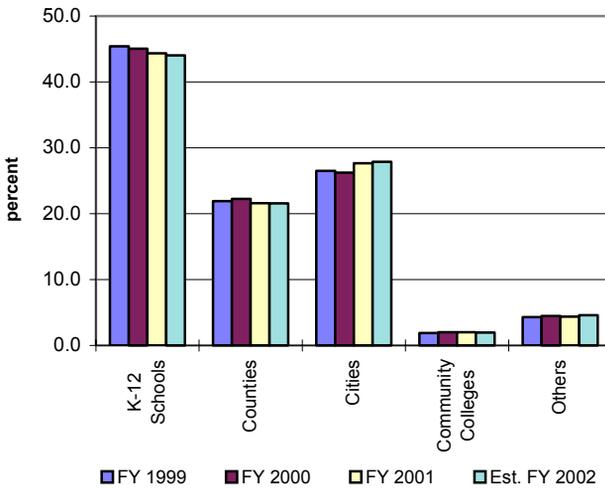
will decrease by 23.1% in 2001.

Consumer prices increased by 1.5% for the March 2001 to March 2002 period. From October to December 2001, the CPI decreased from the previous month's level. This is the first time that the CPI has decreased three consecutive months since 1986.

DISTRIBUTION OF NET TAXABLE VALUATION BY CLASS OF PROPERTY*



PERCENTAGE DISTRIBUTION OF PROPERTY TAXES BY TAXING AUTHORITY



*Class of property information is based on an assessment year.

Note:

Between FY 1992 and FY 2002, net taxable valuation in the State increased from \$74.0 billion to \$96.7 billion.

EDUCATION

PAYING FOR PUBLIC EDUCATION THE IOWA SCHOOL FOUNDATION FORMULA



The Iowa School Foundation Formula was created between 1970 and 1972, for the school year beginning July 1, 1972. This Formula is a student-driven financing mechanism that works to equalize revenues from State sources and property taxes. The Formula was revised in 1989 to equalize per pupil spending, provide an enrollment cushion (phantom students), increase property tax relief, and provide for increased local discretion. In 1992, further revisions to the Formula included eliminating advanced funding for increasing enrollment, eliminating the enrollment decline cushion (phantom students), and requiring the Governor and General Assembly to establish the allowable growth rate each year, which was previously established by a formula.

In the 1995 Session, the determination of allowable growth was changed again. The General Assembly is required to set allowable growth two years in advance within 30 days of the submission of the Governor's budget.

In FY 2002, the School Foundation Formula required \$1.725 billion in State aid (after the 4.3% across-the-board reduction of \$77.5 million) and \$957.1 million in foundation property taxes. This budget was generated based on a student enrollment of 494,291 and a special education weighting total of 65,462.

The School Foundation Formula is based upon basic enrollment, a school district's regular program cost per pupil, State aid determined by a foundation level, and an amount generated by the uniform property tax levy.

The allowable growth rate for FY 2002 was set at 4.0% by the 2000 General Assembly. The allowable growth rate for FY 2003 was originally set at 4.0% by the 2001 General Assembly, but was reduced to 1.0% by the 2002 General Assembly. Also, the 2002 General Assembly appropriated State aid for allowable growth as follows:

- General Fund appropriation of \$1.784 billion. However, the General Fund appropriation amount will have \$45.0 million supplanted as follows:

**PAYING FOR PUBLIC EDUCATION
THE IOWA SCHOOL FOUNDATION FORMULA
(Cont'd.)**

- Economic Emergency Fund appropriation of \$25.0 million to the Department of Management to supplant \$25.0 million of the General Fund amount for school aid.
- Wagering Tax Revenue appropriation of \$20.0 million to the Department of Management to supplant \$20.0 million of the General Fund amount for school aid.

Other funding sources available to school districts on an optional basis in the general education fund area include drop out prevention programs, School Budget Review Committee authorizations, instructional support levy, cash reserve levy, management levy, and enrichment levy.

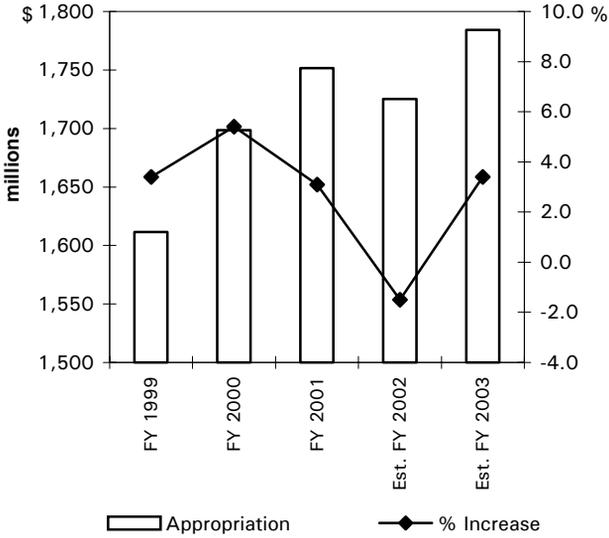
Local school districts have a number of optional funding sources available for non-general education fund activities. These levies are used for building construction, building maintenance, equipment purchases, and certain operational expenditures. These include the debt service levy, schoolhouse property tax levy, physical plant and equipment levy, and the educational and recreation levy.

The 2001 General Assembly made changes to the School Foundation Formula that could begin as early as FY 2003 with the passage of SF 203. Senate File 203 provides incentives for school reorganization that could begin as early as FY 2003. The estimated fiscal impact of this Act is unknown at the present time. The Act also provides incentives for regional academies starting as early as FY 2003. Both of these initiatives provide extra weighting in the School Foundation Formula.

The 2001 General Assembly also reduced the amount of funding that area education agencies (AEAs) were estimated to receive by \$7.5 million in FY 2002. House File 755 (Standing Appropriations Act) reduced the allocation to the AEAs for the Special Education Services Program but allows that funding from the AEAs Media Services Program and the AEAs Educational Services Program be used to maintain the level required for the Special Education Support Services Program.

The 2002 General Assembly continued the reduction for FY 2003 and FY 2004.

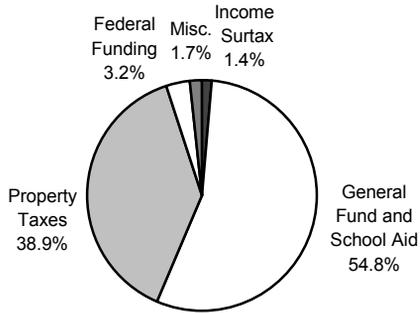
**APPROPRIATIONS
FOR K-12 STATE AID
FY 1999 - ESTIMATED FY 2003**



	<u>Appropriations</u>	<u>Increase</u>	<u>Percent Increase</u>
FY 1995	\$ 1,266,219,943	\$ 34,553,631	2.8%
FY 1996	1,330,908,172	64,688,229	5.1%
FY 1997	1,489,170,713	158,262,541	11.9%
FY 1998	1,558,251,824	69,081,111	4.6%
FY 1999	1,611,592,518	53,340,694	3.4%
FY 2000	1,698,459,679	86,867,161	5.4%
FY 2001	1,751,721,662	53,261,983	3.1%
Est. FY 2002*	1,725,090,500	-26,631,162	-1.5%
Est. FY 2003	1,784,090,500	59,000,000	3.4%
Percentage increase FY 1998 - estimated FY 2003			14.5%
Five-year average annual increase			2.9%

*Includes a 4.3% across-the-board reduction. FY 2002 and FY 2003 include \$45.0 million appropriated from other funds.

**K-12 SCHOOL DISTRICTS' REVENUE
Estimated FY 2002
(\$ in millions)**



	Amount	Percent of Total
General Fund and School Aid*	\$ 1,872.4	54.8%
Property Taxes	1,326.7	38.9%
Federal Funding	109.0	3.2%
Income Surtax	48.4	1.4%
Miscellaneous	58.2	1.7%
Total	\$ 3,414.7	100.0%

*Fiscal Year 2002 school aid includes a \$44.9 million appropriation from the Economic Emergency Fund.

Note:

Approximately 79.0% of the revenue for K-12 school districts is derived through the basic funding formula.

**K-12 SOURCE OF FUNDS
ESTIMATED FY 2002 BUDGET DETAIL
(\$ in millions)**

<u>Source of Funds</u>	<u>Amount</u>	<u>Percent</u>	<u># of Districts</u>
Combined District Cost			
Regular Program	\$ 2,242.7	65.7%	371
Guarantee Amount	7.7	0.2%	115
Supplementary Weights	22.7	0.7%	371
Special Education	297.1	8.7%	371
AEA Media	19.7	0.6%	371
AEA Education Services	21.8	0.6%	371
AEA Special Education	103.2	3.0%	371
Dropout SBRC	44.2	1.3%	225
Other SBRC	0.3	0.0%	3
Enrollment Adjustment	- 0.1	0.0%	30
Total Combined District Cost	<u>\$ 2,759.7</u>	<u>80.8%</u>	
Other Taxes and Misc. Income			
Instructional Support	\$ 120.8	3.5%	293
Educational Improvement	0.6	0.0%	5
Physical Plant and Equipment			
Board Approved	33.1	1.0%	365
Physical Plant and Equipment			
Voter Approved	65.2	1.9%	261
School House Levy	0.6	0.0%	3
Management Levy	53.1	1.6%	359
Ed. and Rec. (Playground)	1.6	0.0%	19
Bonds/Debt Service	101.7	3.0%	214
Miscellaneous - Estimated*	278.3	8.2%	371
Total Other Taxes	<u>\$ 655.0</u>	<u>19.2%</u>	
Total Budget	<u>\$ 3,414.7</u>	<u>100.0%</u>	

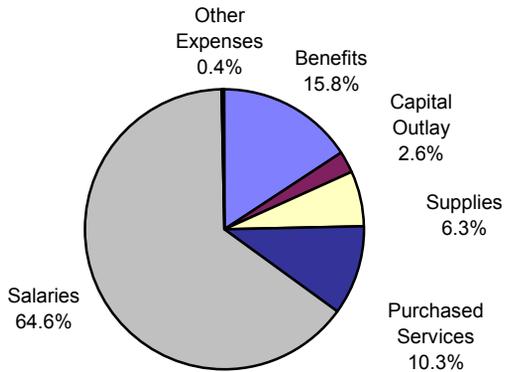
*Miscellaneous income amounts are subject to change in 2001-2002.

Note:

Totals may not add due to rounding.

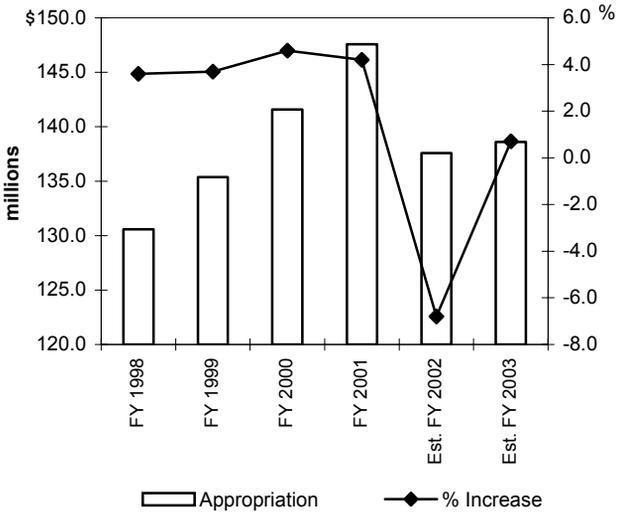
AEA = Area Education Agency
SBRC = School Budget Review Committee

**AVERAGE EXPENSES OF AN IOWA SCHOOL
SCHOOL YEAR 1999 - 2000**



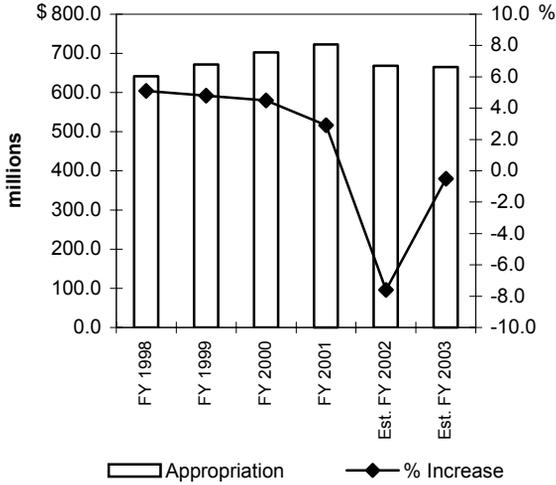
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- From FY 1986 to FY 2000, expenditures for salaries decreased by 3.5 percentage points and expenditures for benefits increased 2.9 percentage points as a percentage of total operating fund expenditures.
 - Statewide average administrative expenditures for FY 2000 are 9.6% of total operating fund expenditures. This is a decrease from 10.2% in FY 1986.

**GENERAL FUND APPROPRIATIONS
FOR COMMUNITY COLLEGES
FY 1998 - FY 2003**



	<u>Appropriations</u>	<u>Change</u>	<u>Percent Change</u>
FY 1998	\$ 130,582,051	\$ 4,575,781	3.6%
FY 1999	135,366,156	4,784,105	3.7%
FY 2000	141,577,403	6,211,247	4.6%
FY 2001	147,577,403	6,000,000	4.2%
Est. FY 2002	137,585,680	- 9,991,723	- 6.8%
Est. FY 2003	138,585,680	1,000,000	0.7%
Percentage increase FY 1998 - estimated FY 2003			6.1%
Five-year average annual increase			1.2%

**GENERAL FUND APPROPRIATIONS
FOR REGENTS INSTITUTIONS
FY 1998 - FY 2003**

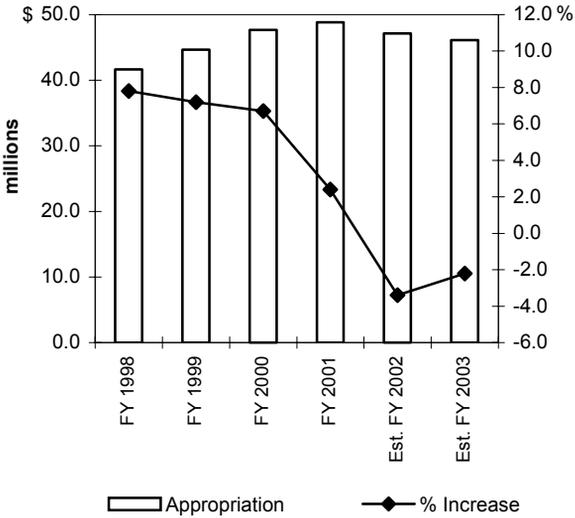


	<u>Appropriations</u>	<u>Increase</u>	<u>Percent Increase</u>
FY 1998	\$ 641,289,390	\$ 31,101,195	5.1%
FY 1999	671,948,128	30,658,738	4.8%
FY 2000	702,456,884	30,508,756	4.5%
FY 2001	722,953,183	20,496,299	2.9%
Est. FY 2002	668,311,362	- 54,641,821	- 7.6%
Est. FY 2003	665,019,978	- 3,291,384	- 0.5%
Percentage increase FY 1998 - estimated FY 2003			3.7%
Five-year average annual increase			0.7%

Notes:

- 1) Includes appropriations made by the Economic Development Subcommittee.
- 2) Total for FY 2002 includes \$600,330 appropriation from tobacco funds for tuition replacement and \$9.0 million appropriation from the Underground Storage Tank Fund for salaries.
- 3) Total for FY 2003 includes \$26.0 million appropriation from tobacco funds for tuition replacement and \$25.0 million appropriation from Principal demutualization proceeds for salaries.

**GENERAL FUND APPROPRIATIONS
FOR TUITION GRANTS
FY 1998 - FY 2003**



	<u>Appropriations</u>	<u>Increase</u>	<u>Percent Increase</u>
FY 1998	\$ 41,664,750	\$ 31,101,195	5.1%
FY 1999	44,664,750	3,000,000	7.2%
FY 2000	47,664,750	3,000,000	6.7%
FY 2001	48,830,075	1,165,325	2.4%
Est. FY 2002	47,155,382	- 1,674,693	- 3.4%
Est. FY 2003	46,117,964	- 1,037,418	- 2.2%
Percentage increase FY 1998 - estimated FY 2003			10.7%
Five-year average annual increase			2.1%

**REGENTS ENROLLMENTS AND TUITION DATA
HISTORICAL COMPARISON**

	Total Enrollments		
	FY 1997	FY 2002	% Change
SUI	27,921	28,768	3.0%
ISU	24,899	27,823	11.7%
UNI	12,957	14,070	8.6%
Total	65,777	70,661	7.4%

	Annual Undergraduate Resident Base Tuition		
	FY 1997	FY 2002	% Change
SUI	\$ 2,470	\$ 3,116	26.2%
ISU	2,470	3,116	26.2%
UNI	2,470	3,116	26.2%

	Annual Undergraduate Nonresident Base Tuition		
	FY 1997	FY 2002	% Change
SUI	\$ 9,068	\$ 11,544	27.3%
ISU	8,284	10,450	26.1%
UNI	6,688	8,438	26.2%

SUI = University of Iowa
ISU = Iowa State University
UNI = University of Northern Iowa

- Between FY 2001 and FY 2011, the University of Iowa enrollment is projected to increase by 0.7%.
- Between FY 2001 and FY 2011, Iowa State University enrollment is projected to decrease by - 2.0%.
- Between FY 2001 and 2011, the University of Northern Iowa enrollment is projected to decrease by - 2.8%.

HUMAN SERVICES

**DEPARTMENT OF HUMAN SERVICES
PROGRAMS**

The Department of Human Services is projected to spend \$2.9 billion combined for all programs, including Medical Assistance, the Family Investment Program, and the Food Stamp Program during FY 2003 (all funding sources). Federal funding is projected to account for \$1.611 billion, or 55.1% of these expenditures. Senior Living Trust Fund appropriations funding is \$67.7 million or 2.3%. State General Fund appropriations are \$735.9 million, or 25.2%. The Medical Assistance Program is projected to serve a total of 238,000 individuals during FY 2003. The Family Investment Program is projected to serve an average of 57,000 individuals each month. The Food Stamp Program is projected to serve an average of 146,000 individuals each month during FY 2003.

The Family Investment Program (FIP) provides direct cash grant assistance to needy families in which the children are deprived of parental care or support due to absence, death, incapacity, or unemployment of one or both parents. In FY 1997, the federal government began to block grant \$131.5 million to Iowa annually from the Temporary Assistance for Needy Families (TANF) Block Grant. Revenues from child support recoveries also finance the Program. The Program was created in FY 1994 as part of a welfare reform effort that changed the structure and benefits of the previous Aid to Families with Dependent Children (AFDC) Program in order to reduce economic disincentives to employment.

The Food Stamp Program is a federally funded program administered by the U.S. Department of Agriculture which has the goal of preventing hunger and malnutrition. Recipients of the Family Investment Program are automatically eligible for food stamps. Individuals or families may also qualify for food stamps without receiving Family Investment Program benefits.

The Child Support Recovery Unit is responsible for collecting child support for families receiving FIP benefits and other families requesting assistance. Other activities include establishing paternity and child and medical support orders, locating absent parents, and reviewing and adjusting support orders upon the request of either parent.

**DEPARTMENT OF HUMAN SERVICES
PROGRAMS (Cont'd.)**

The Medical Assistance Program pays for low-income aged, blind, and disabled citizens, residents of institutions, and other low-income lowans who meet certain criteria. Federal law requires coverage of specified services and eligibility groups. In addition, the State of Iowa is currently covering most of the optional services and eligibility groups for which federal matching funds are available.

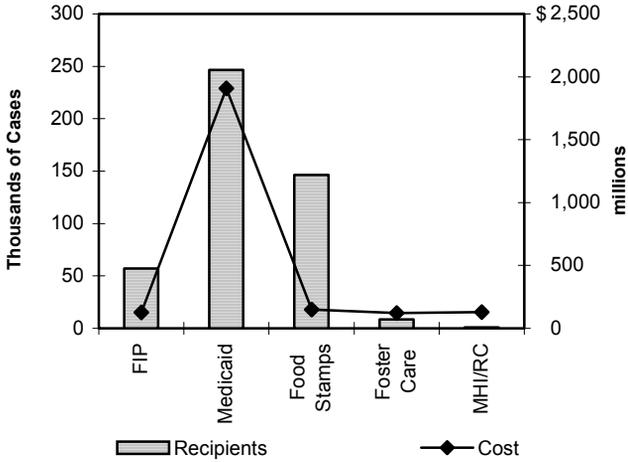
The State Children's Health Insurance Program began in FY 1999, including an expansion of Medical Assistance eligibility for children to 133.0% of the federal poverty level and coverage up to 185.0% of the federal poverty level in the Healthy and Well Kids in Iowa (hawk-i) using private insurance coverage. The Tobacco Fund Appropriations Act for FY 2001 (HF 2555) expanded income eligibility guidelines to 200.0% of the Federal Poverty Level.

The Foster Care Program provides 24-hour temporary care for children unable to remain in their own homes, while offering services to families and children in order to implement plans for permanent placement.

There are four Mental Health Institutes for the mentally ill, located at Clarinda, Independence, Mt. Pleasant, and Cherokee. These Institutes provide a range of psychiatric and substance abuse services in an inpatient residential setting for those cases that community-based services cannot handle. The Institutes also provide limited outpatient services. Two of the Institutes, Clarinda and Mt. Pleasant, share campuses and selected support resources with adult correctional facilities operated by the Department of Corrections.

There are two Resource Centers which provide for the mentally retarded, located at Glenwood and Woodward. These Resource Centers provide diagnostic evaluation, treatment, training, care, rehabilitation, and support of mentally retarded persons. The Resource Centers also serve as the locations for various entities within the respective geographic areas which provide a wide variety of services to the area.

DEPARTMENT OF HUMAN SERVICES
FY 2003 MAJOR PROGRAMS



	Average Monthly Recipients Per Program	Total Program Cost
FIP	57,100	\$ 126,898,250
Medicaid	246,632	1,908,744,670
Food Stamps	146,450	149,449,472
Foster Care*	8,600	121,292,643
MHI/RC**	1,028	130,263,789

* Foster Care includes group foster care, foster family care, and subsidized adoptions.

** Based on Average Daily Census.

Note:

The number of recipients per program may be overestimated. Recipients may participate in more than one program causing the number of cases shown here to be inflated.

FIP = Family Investment Program

MHI/RC = Mental Health Institutes/Resource Centers

TOTAL MEDICAL ASSISTANCE SPENDING
FY 2001 - FY 2003
(\$ in millions)

Category	Actual FY 2001	Est. FY 2002	Est. FY 2003
Inpatient*	\$ 201.5	\$ 215.9	\$ 227.6
Outpatient*	79.4	86.2	92.1
Skilled Nursing Facility*	25.8	NA	NA
NF-Excluding MR*	339.3	389.6	405.5
NF-MR	199.2	202.5	205.9
Physicians Services*	75.3	89.5	78.5
Lab & X-ray Services*	1.7	2.0	1.8
Ambulance Services	1.3	1.6	1.3
Prescribed Drugs	223.1	266.2	323.7
HMO*	91.5	96.5	109.8
Medical Supplies	23.4	24.5	26.2
Dental Services	29.0	34.0	30.9
Optometric Services	4.3	5.2	4.5
Iowa Plan*	68.9	80.0	84.9
Waiver Services**	124.3	152.4	171.5
Other	188.6	160.1	134.5
Total	\$ 1,676.6	\$ 1,806.2	\$ 1,898.7

* Mandatory Services.

** Waiver Services - Mentally ill and handicapped waiver, AIDS waiver, brain injury waiver, mentally retarded waiver, elderly waiver, physical disabilities waiver, and home health.

Note:

Dollars include federal, State, and county dollars.

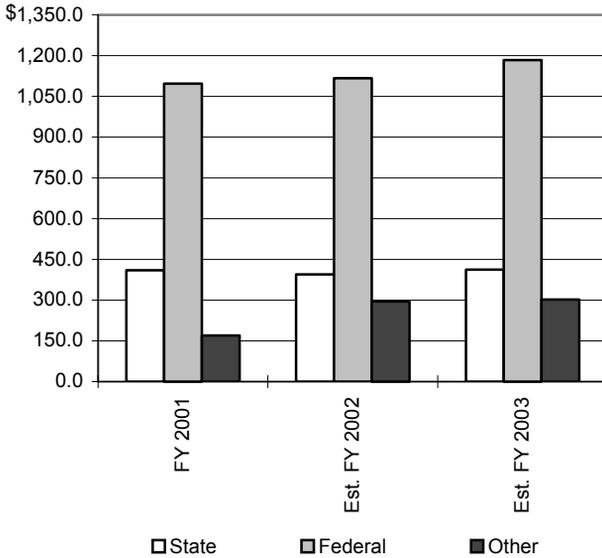
AIDS = Acquired Immune Deficiency Syndrome

NF = Nursing Facility

HMO = Health Maintenance Organization

MR = Mentally Retarded

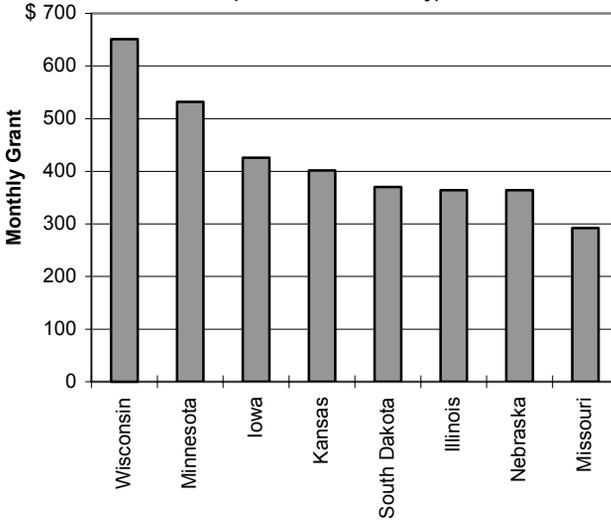
**TOTAL MEDICAL ASSISTANCE SPENDING (Cont'd.)
FY 2001 - FY 2003
(\$ in millions)**



- General Fund spending for the Medical Assistance Program is projected to increase by 5.4% for FY 2003 compared to the estimated FY 2002 level. Federal spending is projected to increase by 9.3% for FY 2003 compared to the estimated FY 2002 level.
- The federal government matches State spending of 36.7% with 63.3% of federal spending for FY 2003.

**FAMILY INVESTMENT PROGRAM CASH ASSISTANCE
GRANT - BY STATE
FY 2002**

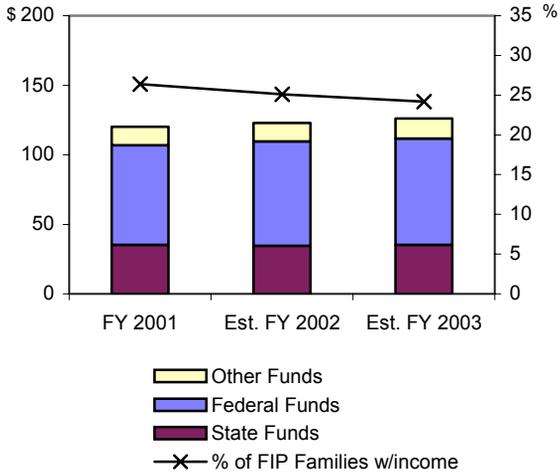
**Maximum Monthly FIP Grant
Iowa and Surrounding States
(Three Person Family)**



FIP = Family Investment Program

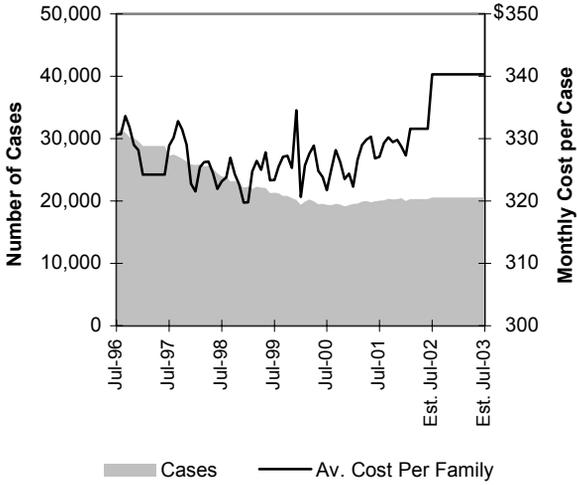
- Iowa's Family Investment Program (FIP) monthly benefit for a family of three is slightly above the average maximum benefit for surrounding states (\$425 per month average, \$426 per month for Iowa).
- Family Investment Program recipients are also eligible for Food Stamp benefits, which decline as the FIP grant increases.
- Benefits for the Iowa Family Investment Program have remained unchanged since 1990.

**TOTAL FAMILY INVESTMENT PROGRAM SPENDING
FY 2001 THROUGH FY 2003
(\$ in millions)**



- Total spending on the Family Investment Program is anticipated to increase from \$122.9 million in FY 2002 to \$127.0 million in FY 2003, an increase of \$4.1 million (2.5%). Funding for the Family Investment Program changed in FY 1997 from a matching program where the federal government contributed on a percentage basis to a fixed federal block grant amount each year.

FAMILY INVESTMENT PROGRAM CASELOAD AND COST PER CASE



- Total caseload for the Family Investment Program has declined from a high of 40,659 in April 1994 to an estimated FY 2003 caseload of 20,466. This is a decrease of 20,193 cases (49.7%).
- Cost per case has declined from a high of \$377.27 per month in September 1991 to an estimated FY 2003 cost per case of \$340.38. This is a decrease of \$36.89 per month (9.8%).

CHILDREN'S HEALTH INSURANCE (CHIP) PROGRAM

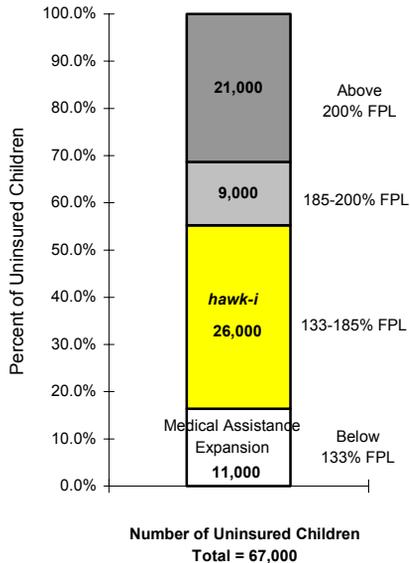
Congress enacted the Children's Health Insurance Program, with federal funds available on October 1, 1997, to provide insurance for children in families with incomes up to 200.0% of the Federal Poverty Level (FPL).

House File 732 (FY 2002 Human Services Appropriations Act) appropriates \$8.4 million in General Funds and \$4.3 million from the Healthy and Well Kids in Iowa (*hawk-i*) Trust Fund to provide Iowa's match for \$77.0 million in federal funds that are available starting July 1, 2002. The Act provides Medicaid coverage to children in families up to 133.0% of the FPL. Senate File 2326 (FY 2003 Human Services Appropriations Bill) appropriates \$10.0 million and HF 2623 (FY 2003 Salary Adjustment Bill) appropriates \$1.5 million in General Funds and estimates \$2.6 million from the *hawk-i* Trust Fund to provide Iowa's match for \$63.8 million in federal funds.

The *hawk-i* Program was enacted in 1998, establishing a private insurance program for children in families with incomes between 133.0% and 185.0% of the FPL. The Program was implemented January 1, 1999, through a managed care plan offered in 16 counties. The Program was expanded statewide through an indemnity plan on March 1, 1999. As of January 2002, statewide coverage is provided by two managed care plans and one indemnity plan. The Tobacco

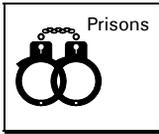
Fund Appropriations Act for FY 2003 continues to expand income eligibility guidelines to 200.0% of the FPL.

The Bureau of Census estimates 67,000 total uninsured children in the State. The DHS estimates 30,000 children will be served through the Children's Health Insurance Program by the end of FY 2003.



CRIME/ENFORCEMENT

PRISONS/CORRECTIONS



Iowa began expanding the 3,603-bed Prison System in FY 1995. The table on the next page details the prison expansion. Each 750-bed medium-security prison costs approximately \$45.0 million to construct and \$25.0 million per year to operate.

During the 1997 Session, the General Assembly approved a 232-bed expansion at the Mitchellville women's prison. During the 1998 Session, the General Assembly approved a 200-bed special needs maximum-security cellhouse at Ft. Madison, the conversion of 100 Department of Human Services beds at Mt. Pleasant to special needs women's prison beds, and two 200-bed cellhouses at Ft. Dodge. During the 1999 Session, the General Assembly approved a 170-bed expansion to the Oakdale institution to treat offenders requiring continued medical and mental health care. In addition to the new construction, the Department of Corrections has modified its calculation of design capacity. Given these changes and construction, the Prison System will have a total capacity of 7,142 beds upon completion.

The Iowa prison population continued to increase during FY 2001, and reached a record high count of 8,150 inmates in June 2001. During FY 2002, the prison population stabilized and was at 8,133 inmates in May 2002. The Criminal and Juvenile Justice Planning Division has projected that the inmate population will grow to 12,318 inmates by the end of FY 2011, given current correctional policies and practices.

With the addition of the new prison beds, modification of the design capacity calculation, and the increase in the inmate population, overcrowding was 120.0% in May 2002. The prison population is projected to increase to 9,398 by the end of FY 2004, which, with the addition of the approved prison beds, will be 131.6% of total capacity. By the end of FY 2011, the prison population is projected to increase to 12,318 inmates, which will be 172.5% of capacity.

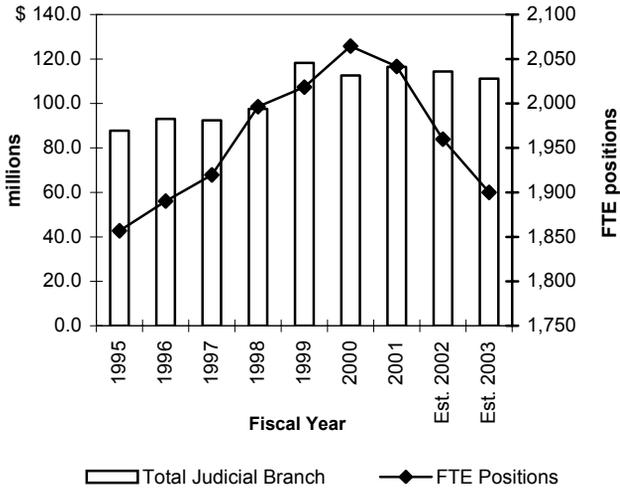
PRISONS/CORRECTIONS (Cont'd.)**Prison Expansion FY 1995 - FY 2004**

<u>Location</u>	<u>No. of Beds</u>	<u>Opening Date</u>
Clarinda	750 *	April 1996
Newton	750	July 1997
Ft. Dodge	750	April 1998
Mt. Pleasant	100 **	April 1999
Mitchellville	232	April 2000
Ft. Dodge	400	February 2000
Ft. Madison	200	August 2002
Oakdale	170	July 2005

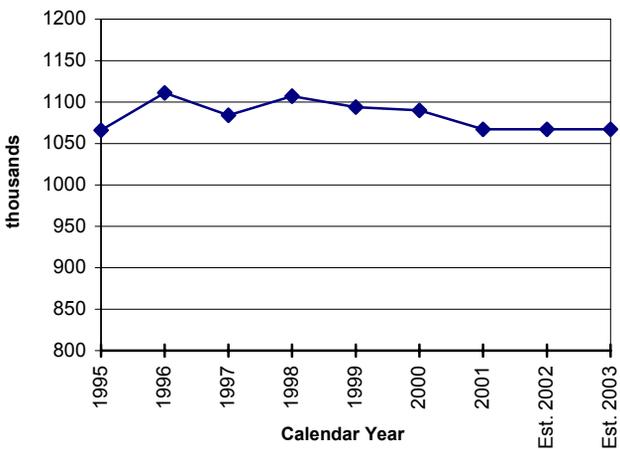
* Replaced the 152-bed facility.

** Conversion of Department of Human Services beds to special needs women's prison beds.

**JUDICIAL BRANCH
APPROPRIATIONS AND FTE POSITIONS
FY 1995 - FY 2003**

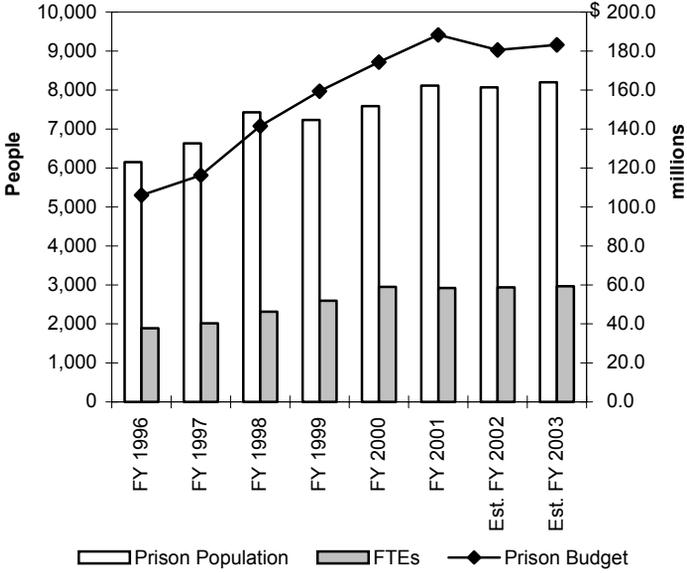


**COURT CASE FILINGS
CY 1995 - CY 2003**

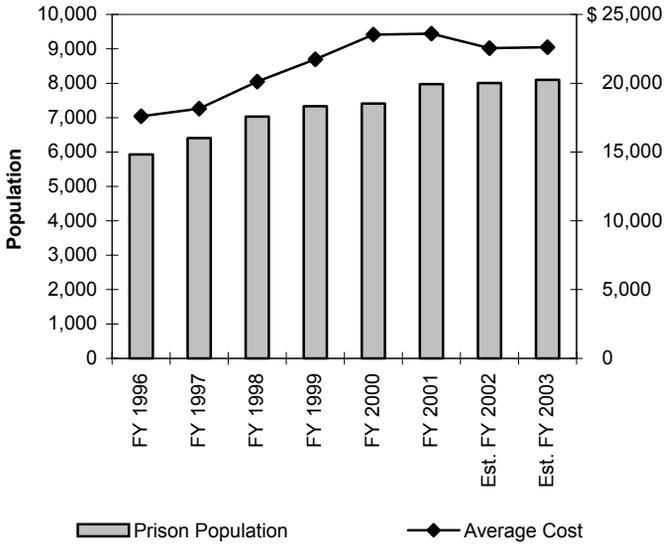


CY = Calendar Year

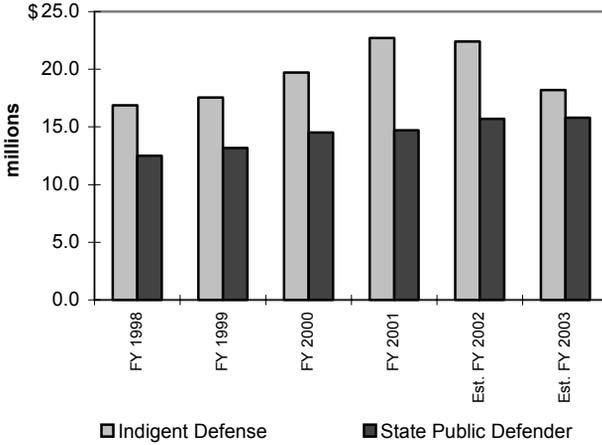
YEAR-END PRISON POPULATION, STAFFING, AND BUDGET



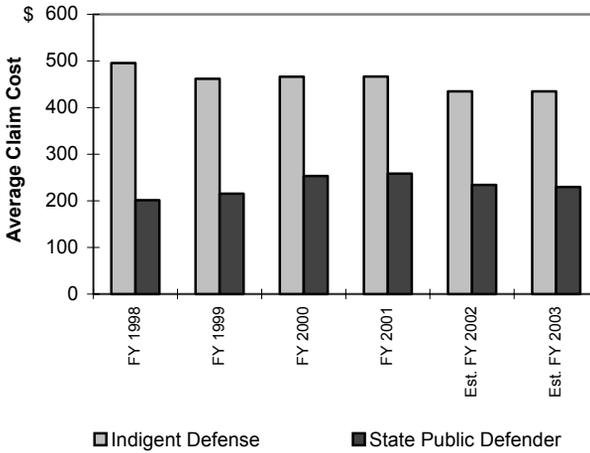
AVERAGE PRISON POPULATION AND AVERAGE COST PER PRISONER



**INDIGENT DEFENSE AND STATE PUBLIC DEFENDER EXPENDITURES
FY 1998 - FY 2003**



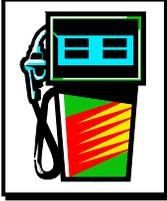
**INDIGENT DEFENSE AND STATE PUBLIC DEFENDER COSTS PER CLAIM
FY 1998 - FY 2003**



Notes:

- 1) Costs for juvenile cases are included for the State Public Defender and for Indigent Defense.
- 2) House File 2625 (FY 2002 Adjustments and Transfers Act) provided a FY 2002 supplemental appropriation of \$2,740,000 to Indigent Defense from the Terminal Liability Health Insurance Fund.

TRANSPORTATION

ROAD USE TAX FUND

The Road Use Tax Fund is comprised of revenue sources which include taxes on fuels; fees collected on vehicle registrations, titles, and driver licenses; and use tax collected on motor vehicle purchases and related equipment.

Except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are constitutionally mandated to be spent exclusively for the construction, maintenance, and supervision of the State's public highways (Section 8, Article VII, Constitution of the State of Iowa). However, the use tax on motor vehicles and equipment is exempt from the constitutional mandate.

All revenues deposited into the Road Use Tax Fund are distributed by formula to the Primary, Secondary, Farm-to-Market, and Municipal Roads Funds which are used by State and local jurisdictions for the construction and maintenance of roads. However, before the revenues are distributed through the formula, various allocations and appropriations are made from the Fund for programs, equipment purchases, and department operations. These expenditures are referred to as "off-the-top" allocations. The five largest "off-the-top" allocations are listed below. The figures for FY 2002 and FY 2003 are estimated.

- Revitalize Iowa's Sound Economy (RISE) - An amount equal to one and 11/20 cents per gallon of motor fuel is allocated for RISE projects. The FY 2001 RISE funds are distributed as follows: 20/31 (\$20.9 million) to the State Primary Road Fund, 10/31 (\$10.5 million) for city projects, and 1/31 (\$1.1 million) for county projects. The total amounts distributed were:

FY 2001 - \$32.5 million
FY 2002 - \$32.2 million
FY 2003 - \$31.6 million

ROAD USE TAX FUND (Cont'd.)

- Department of Transportation (DOT) - Annual appropriation for the operation of the DOT's operating divisions.
 - FY 2001 - \$37.6 million
 - FY 2002 - \$36.6 million
 - FY 2003 - \$35.8 million

- Primary Road Fund Off-the-Top - A standing appropriation allocated directly to the Primary Road Fund to cover inequities identified when the Road Use Tax Fund formula was revised in 1991 and to compensate for increased highway wear associated with higher truck weight limits.
 - FY 2001 - \$11.5 million
 - FY 2002 - \$11.5 million
 - FY 2003 - \$11.5 million

- Secondary Road Fund Off-the-Top - This allocation is credited directly to the Secondary Road Fund and is based on an amount equal to 9/20 cents per gallon of fuel.
 - FY 2001 - \$ 9.4 million
 - FY 2002 - \$ 9.3 million
 - FY 2003 - \$ 9.2 million

- Public Transit Assistance - A standing appropriation equal to 1/20 of 80.0% of the total Use Tax collections on the sale of motor vehicles. These funds are deposited into the General Fund
 - FY 2001 - \$14.8 million
 - FY 2002 - \$ 8.9 million
 - FY 2003 - \$ 8.5 million

ROAD USE TAX FUND (Cont'd.)
 (\$ in millions)

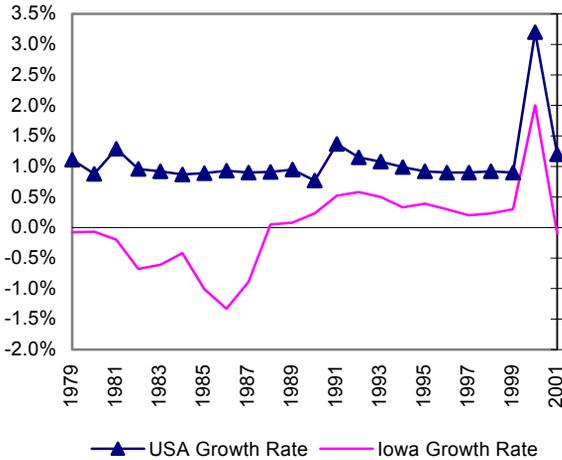
	Actual FY 2001	Estimated FY 2002	Estimated FY 2003
Revenues			
Fuel Tax	\$ 396.5	\$ 388.3	\$ 381.4
Registration Fees	342.4	352.8	360.5
Use Tax	212.9	205.5	201.9
Underground Tank Fees	19.4	19.2	19.2
Driver's License Fees	11.8	8.7	10.1
Interest	10.3	9.8	9.6
Other	8.3	7.4	11.4
Total	<u>\$1,001.6</u>	<u>\$ 991.7</u>	<u>\$ 994.1</u>
Allocations			
Primary Road Fund	\$ 414.5	\$ 412.5	\$ 413.2
Secondary Road Fund	213.8	212.8	213.1
Farm-to-Market Road Fund	69.8	69.4	69.6
Municipal Road Fund	174.5	173.7	174.0
Statutory Allocations	85.2	83.7	83.5
Appropriations	43.8	39.6	40.7
Total	<u>\$1,001.6</u>	<u>\$ 991.7</u>	<u>\$ 994.1</u>

Note:

Totals may not add due to rounding.

STATE PROFILE

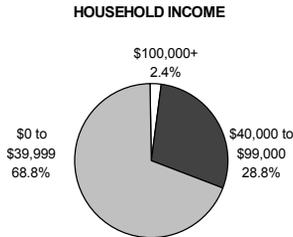
IOWA'S POPULATION GROWTH RATE COMPARED TO NATIONAL RATE



Note: The increase in population growth rate for the year 2000 is due to the decennial census, which provided a more accurate population base for the estimate.

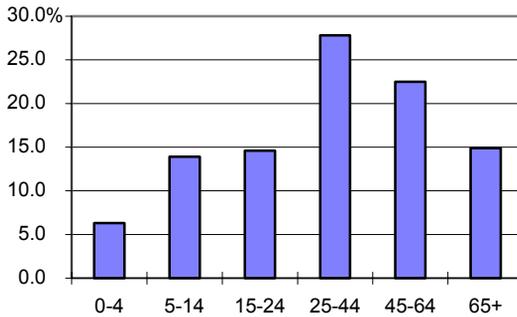
- Iowa's rate of population growth has been historically below the national average. Between the years 1979 and 1988, Iowa experienced a negative growth rate while the national average was fairly constant at 1.0%.
- In 1980, African-Americans made up 1.4% of Iowa's population, Hispanics/Latinos made up 0.9% of the population, and the Asian population was labeled "insignificant" meaning the total percentage was either less than 0.1% or the data was not available. By 2000, the African-American population grew to 2.1%, while the Hispanic/Latino population expanded to 2.8%, and Asians comprised 1.3% of Iowa's total population.
- Iowa's growth rate has not surpassed the national average for at least 20 years. Iowa's largest annual decline was in 1986, with a 1.33% decline in population.
- Iowa's current population estimate is 2,923,179.

IOWA'S POPULATION (most recent available information)



- The average Iowa household has 2.5 members.
- Iowa's median household income is \$42,993; compared to the national median household income of \$42,148.
- Median age of an Iowan is 36.6 years of age.

AGE DISTRIBUTION OF IOWANS



Source: Woods & Poole Economics, Inc.

- Iowa per capita gross wagering on gambling is \$4,627.
- Average 16-year-old Iowan has a life expectancy of 79.2 years.
 - Marriage rate was 6.9 per 1,000 population compared to the national average of 8.5.
 - Divorce rate was 3.2 per 1,000 population compared to the national average of 4.1.
 - The percentage of births to unmarried women was 28.0% compared to the national average of 33.1%.

IOWA'S POPULATION (Cont'd.)

- The infant death rate per 1,000 live births was 5.7 compared to the national average of 7.1.
- The national average for persons covered by health insurance is 86.0% compared to 91.3% of Iowans.
- A high school diploma has been achieved by 89.7% of Iowans.
 - Iowans 25 years of age and older having a bachelors degree or more is 22.2%.
 - High school dropout rate was 2.5% compared to the national average of 5.0%.
 - Iowa ranks fourteenth in the country, with 5.2 books in public libraries per capita.
- The Iowa population includes 4.3% receiving food stamps, ranking 40th in the nation. (The national average includes 6.1% of the population receiving food stamps.)
- Iowa's average Family Investment Program (FIP) monthly payment is \$326 compared to a national average of \$357.
- Iowa ranks 35th in the nation with 3,234 crimes per 100,000 population.
- Iowa had 276 state prisoners per 100,000 population, ranking 39th nationally.
 - The median age for inmates is 32 years old.
 - Men are 91.6% of the inmate population.
 - 70.7% of the inmate population is white, 22.3% is African-American, 4.7% is Hispanic, and 2.3% is other minorities.
- Iowa had 1.6 million in civilian labor force, including 47.7% women.

LABOR CATEGORIES

Agriculture and Mining	1.5%
Construction	4.4%
Finance, Insurance, and Real Estate	5.9%
Government	15.5%
Manufacturing	18.1%
Service	25.1%
Transportation and Public Utilities	4.8%
Wholesale/Retail Trade	24.7%